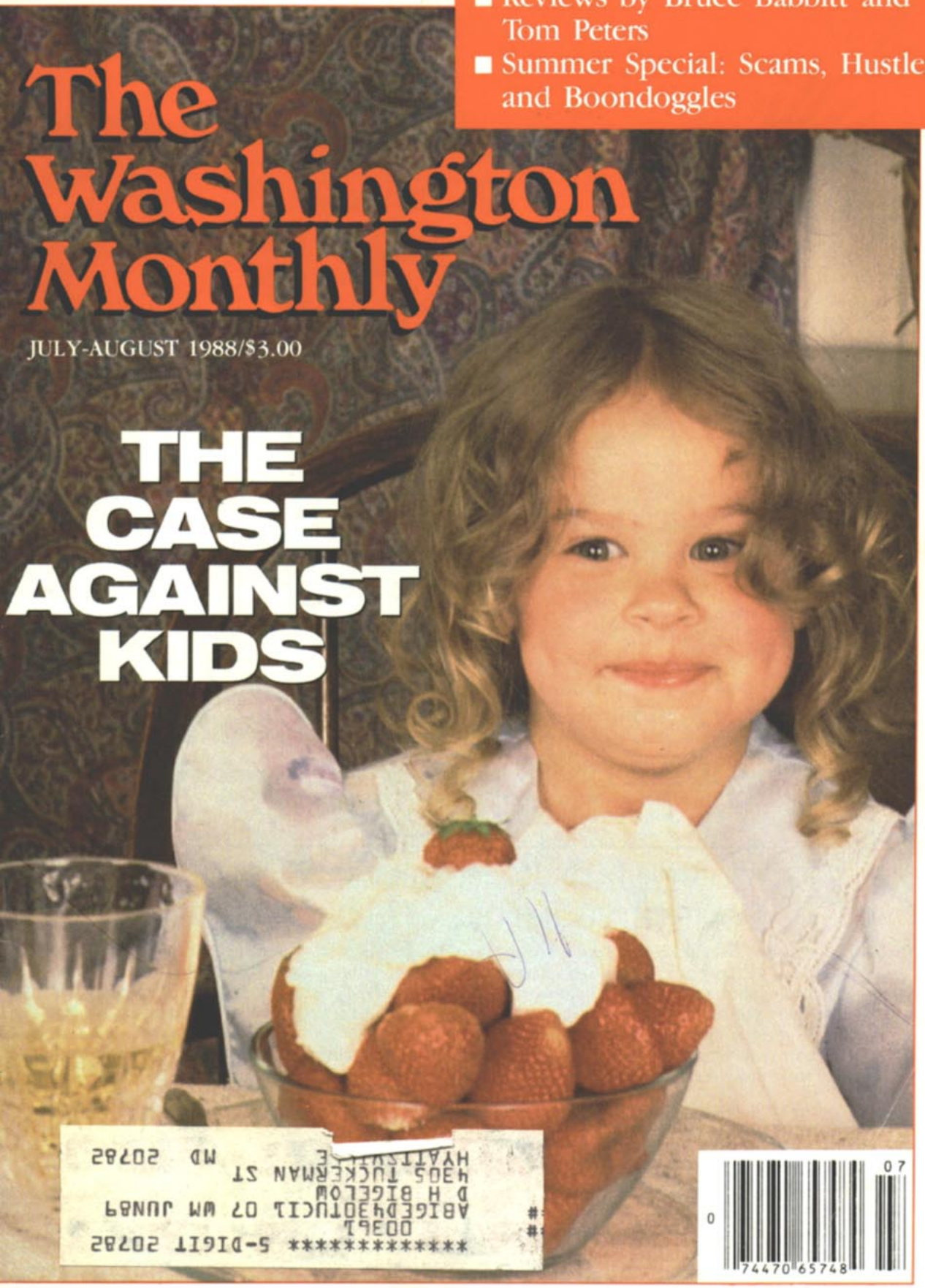
- Reviews by Bruce Babbitt and Tom Peters
- Summer Special: Scams, Hustles, and Boondoggles

The Washington Monthly

JULY-AUGUST 1988/$3.00

THE CASE AGAINST KIDS



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LETTERS

Why NOW?

The article published in the March 1988 *Washington Monthly* entitled "The Best and Worst of Public Interest Groups," [Rita McWilliams] as it relates to the National Organization for Women, is riddled with false statements, libelous allegations, and malicious innuendo.

In the introduction to the profiles which comprise the body of the article, the "worst" groups are generally described as follows:

"The worst public interest groups alienate the public rather than rally it to their cause. They use deceptive tactics that exploit the public's fears or hide their true intent. They enrich themselves at their members' expense. With moral credibility the industry's most precious capital, the work of the worst public interest groups threatens all those who share the public interest label."

This description is utterly untrue of NOW, yet it purports to characterize the "worst" groups of which NOW is said to be one.

The profile of NOW is similarly error-ridden. NOW's membership has not declined in the last ten years; it has doubled. More to the point, NOW does perform the "trenchwork" necessary to do its job. We believe the trenchwork begins at the grass-roots level so NOW uses a variety of tactics, not only legislative lobbying, but also litigation, demonstrations, picketing, consciousness-raising and public education.

MOLLY YARD
Washington, D.C.

Ms. Yard is president of the National Organization for Women.

The editors and the author reply:

The words quoted, while true of some of the other organizations mentioned in our article, were not intended to apply to NOW. We wish to apologize and express our regret for any harm NOW may have suffered as a result.

"The Best and Worst of Public Interest Groups" was certainly informative. A regular feature dealing with the "best and worst" would be welcome on a regular basis (one issue at a time). Hope we will see more of Rita McWilliams's work.

D.B. ARTES
Indian Head, Maryland

Kudos to *The Washington Monthly* and Rita McWilliams for having the nerve to write a bird's-eye view of public interest groups. Particularly interesting was NOW's. Their Joanny-one-note screeching, howling, and persistent pursuit of tangential women's issues has left scores of once-ardent feminists disenchanted and increasingly disinterested—including me. At this point they are lucky—best or worst—to be thought of at all.

KATHRYN KAVANAGH BARAN
Alexandria, Virginia

I take strong exception to your characterization of the National Organization for Women. I have seen firsthand NOW's ability to organize grass-roots support for economic justice issues.

This is an organization I know to be fiscally responsible, spending money only on those organizational priorities which will lead to the elimination of gender bias in the United States. It is nothing short of outrageous to suggest otherwise.

JUDITH L. LICHTMAN
Washington, D.C.

Judith L. Lichtman is executive director of the Women's Legal Defense Fund.

While WEAL was pleased to be noted for its "hard work on economic issues," we were sorry it was at the expense of the National Organization for Women. The women's movement is not just one group with one emphasis. While WEAL's hard work in the trenches is necessary, it is not sufficient for advancing the women's rights agenda. NOW's willingness to express moral outrage (and sometimes to be outrageous) is also essential. More power to them!

CHAR MOLLISON
Washington, D.C.

Char Mollison is executive director of Women's Equity Action League.

I have a few comments on your magazine's recent rating of NORML as one of the worst public interest organiza-

JOB

We soon will have an opening for a reporter-editor. Desirable qualifications include practical experience working in or writing about politics and government. More important are intelligence, humor, and the willingness to work long hours for low pay. Applications should be accompanied by a list of at least three references, and by writing samples, not necessarily published but designed to demonstrate fact-gathering and analytical ability.

THE
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tions in Washington. Contrary to the impression presented by your article, lots of people get arrested for marijuana-related offenses—over 365,000 in 1986 alone. Of these, 85 percent were for simple possession. In addition, millions of people face job dismissal on account of urine tests for off-the-job drug use. NORML is "hungry for cash" because we spend most of our working day answering requests and providing assistance to these people.

The Jerry Mitchell case you mentioned as representing NORML's better days is a case we're still proud of. Nonetheless, NORML actually defended very few people in those days. The game in the 1970s was to generate a positive legend about your group and manipulate publicity to pressure legislators; this in turn could be exploited with successful fundraising. Perhaps we're naive, but we don't operate that way anymore. Your complaints about our legal program, particularly our seminars, echo those of the Justice Department; they think that, because of the notorious reputations of the defendants they charge, they should be entitled to do sloppy work. Though the legal program, incidently, takes up less than 10 percent of our office time, I'm pleased that it makes Ed Meese take his job more professionally.

We've dedicated ourselves to working with individual members of the public. The style of our work is not as grandiose as people expect; we're a public interest group, not a photo opportunity. If this leaves us vulnerable to criticism such as yours, so be it.

JON B. GETTMAN
Washington, D.C.

Mr. Gettman is national director of NORML.

I enjoyed your article on public interest groups. However, I noted a paradox. You praise Citizens for Tax Justice and mention as one of its achievements a report which found that "some of the nation's largest corporations paid no taxes." You also commend the Nature Conservancy, which arranged for the Prudential Insurance Company (a large corporation?) to donate 120,000 acres of forest and wetlands to the federal government: "Nature Conservancy accountants and lawyers helped Prudential outline the *tax advantages* that encouraged the donations" [emphasis added]. No doubt Prudential paid little or no federal taxes that year. Is that bad?

PEGGY HARRISON
Alexandria, Virginia

Forer's foster fuss

Judge Forer is on track with her plea to consider alternatives other than foster care for kids in trouble ["Bring Back the Orphanage," April].

The judge missed the point, however, when she discussed the beating death of Elizabeth, the little girl who lived for several years with Mr. Steinberg and his companion, Ms. Nussbaum. Elizabeth was the victim of unregulated private adoption. Her biological mother placed her with Mr. Steinberg, an attorney, with the understand-

The Washington Monthly

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ing that he would place her for adoption. Mr. Steinberg also received another child, this time from an attorney who does a lot of adoption work, who was "only" neglected and abused while in his home, not killed. Elizabeth and the little boy who were victimized by Steinberg did not need the orphanage option. They needed appropriate laws in New York to protect them, as children whose parents wanted them placed for adoption.

WILLIAM PIERCE
Washington, D.C.

Mr. Pierce is president of the National Committee for Adoption.

I read with great interest Lois Forer's article. Although I do not dispute the claim that we need more children's homes (orphanages, if you will), I cannot agree with her complete disparagement of foster care.

My foster sister came to live with us the summer between her sixth and seventh grades. She lived as a member of my family until she graduated from high school. She went off to college, came home on vacations, went on to a successful career, and now visits with our family at holidays, weddings, funerals, etc. Most of my friends know I have two sisters; very few know that only one of them was born to my parents.

One of the reasons that foster care is failing is that many social service agencies make the long-term placement my sister experienced impossible. There is another group of potential foster parents—those who want children. Foster parenting could be an attractive alternative for those who now pay surrogate mothers or take fertility drugs. It is not attractive because there is no guarantee that a placement will be permanent. The policies aimed at "keeping families together" described by Judge Forer refuse to firmly remove the claims of the biological parents even when those claims have been tortured and abused.

My parents were not saints. They were just parents—good parents, generous parents, loving parents. Policies and the law should make it easier for generous and loving people to open their homes.

PATRICK J. FLAHERTY
Coventry, Connecticut

Shallow pockets

In "Tilting at Windmills" [May] you suggest that requiring the losing side to pay all legal costs for both sides in all civil suits will sharply reduce or eliminate suits that are without merit. I support your suggestion but would suggest that its effects would be more complex. Like the Robertson/McCloskey case you cite, many civil suits involve two litigants with vast differences in financial resources. At present, shallow-pockets litigants are often scared away from even well-merited legal actions by the threat of incurring substantial legal costs. Your proposal would offer them the hope of recouping those costs if they win, but it would also greatly increase their risk if they lose. If only one side has the resources to handle the combined legal costs of a suit, then that side will have an incentive to run up those costs in order to chase away the other side, because there has never been a case so cut and dried that one side could be certain of winning. Some version of your proposal would make sense, but I don't think we should kid ourselves that we have in sight a way of removing the pernicious influence of wealth from legal proceedings.

JOHN R. HALL JR.
Norwood, Massachusetts

Typin' slaves

I must disagree with your comment ["Tilting at Windmills," March] that journalists no longer identify with the working class.

For two years I wrote for a small newspaper owned by the Thomson chain (best known for its low pay, poor management, and general mediocrity). During that time I covered several beats, won a state award, and advanced to Lifestyles editor. My ending pay rate? $285 a week.

MARION BLACKBURN
Rocky Mount, North Carolina

The brothers Dukakis

I enjoyed Christopher Lydon's piece on Michael Dukakis ["The Iceman Cometh," May], and have a simple question to raise.

"At least partly, it appears, under the pressure of Michael's fierce competition, Stelian (Michael's older brother) collapsed in suicidal depression during college and never fully recovered." The psychology is at best dubious; none of us can ever know what terrors, from whatever cause, another person has to fight or put up with; we don't even know ourselves that well, do we?

BERNARD ADELMAN
Winthrop, Massachusetts

Can't find good help

Your article in the May issue on the absence of waitresses in "power restaurants" in Washington ["Which of the Following Can't Be Found in Fancy Restaurants?," Marianne Szegedy-Maszak] praised New York's 21 Club for hiring waitresses. Unfortunately, 21's decision (in 1987, for the first time) to hire waitresses was accomplished by the firing of over 50 waiters, captains, bartenders, and kitchen staff, nearly all Hispanic or of other non-native U.S. national origins, most of them over 50 years old, to make room for younger, attractive people who did not speak English with an accent. Most of the people fired had been with 21 for many years. The waiters and kitchen staff who were fired have filed a civil rights suit (age and national origin discrimination) against 21 that is presently in the discovery stage (I am co-counsel for the plaintiffs).

WILLIAM A. DOBROVIR
Washington, D.C.

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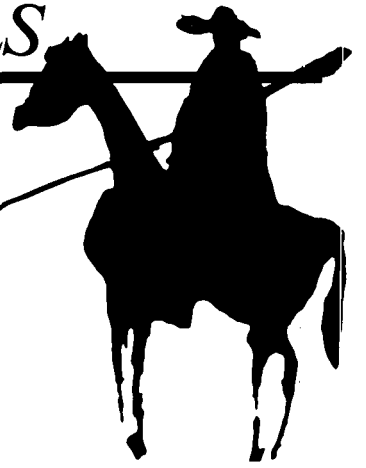
TILTING AT WINDMILLS



Our Misleading Headline of the Month Award for June goes to *The New York Times* for "U.S. Envoy's Bulletproof Car Comes Under Fire in Beirut." In the last sentence of the story, the reader discovers that the Lebanese had a legitimate reason for being agitated:

"The police said the ambassador, John Kelly, was traveling through East Beirut, when his bodyguards fired in the air to clear a way through dense traffic, beginning the exchange of gunfire."...

Of the many ways Asian nations screw us on trade, the American government seems to have striven most valiantly to remove the barriers to American cigarette exports. As a result, in Taiwan, for example, sales of American cigarettes rose from $4.4 million in 1986 to $119 million last year. A Taiwanese official recently complained to a reporter:

"Younger people are smoking a lot because of American ads. They hire young, attractive 19-year-old girls wearing short skirts to give out cigarettes free in nightclubs. It's very difficult for young boys to resist, and then it becomes a habit. It's immoral."

That understates the case. For the American government to be encouraging this promotion of addiction among the young seems nothing short of criminal....

Speaking of criminal behavior, I hope that some great legal mind will come up with a way to make corporate greed an indictable offense. Last year the compensation of this country's 800 top chief executive officers increased by 27 percent over 1986. This is insane. They were already overpaid—Japanese executives receive far less—and productivity gains could have justified no more than a handful of the raises.

Excessive compensation for executives only inspires similar greed among union members, who, as unemployment declines and their muscle returns, will almost certainly demand more of the booty for themselves and thus inspire another round of the price increases that made us uncompetitive in the seventies....

Another challenge to that great legal mind is to figure out how to indict the auto company that builds cars that can go way too fast and the advertising agency that sells them on the basis of their speed. I recently saw a television commercial for the "S" class Mercedes that praised the car's ability to go 120 miles an hour. I would like to think that only the most arrogant Prussian could possibly conclude that anyone could drive safely at 120 miles per hour on a real highway with real traffic. But the ad was produced in America and shown on American television....

For parents wondering why college tuition bills keep rising so much above the inflation rate, I have long urged that they take a good look at the costs of academic administration. One factor is university presidents who are increasingly demanding that they be surrounded with the trappings we have previously associated with monarchs. For example, the new mansion of the president of the University of Colorado is costing $1.5 million....

Waste in public primary and secondary school administration is even worse than it is in higher education. Ponder this one dismaying fact: the Chicago public schools require 3,000 administrators to oversee 400,000 students; Chicago parochial schools require 32 administrators for 200,000 students....

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The Federal Trade Commission deals almost entirely with domestic regulation issues, such as unfair competition or monopolistic practices, yet in the past two years its chairman, Daniel Oliver, a conservative Republican, has spent 95 days traveling abroad. He has visited Australia, New Zealand, Belgium, and Italy. He has been to Nassau, Geneva, Berlin, Tokyo, and that hot-bed of antitrust activity, Acapulco. He has also managed three trips to London and five to Paris. Forty of these junkets have been taxpayer subsidized. There used to be a tradition of frugality among conservatives—remember H.R. Gross, the parsimonious curmudgeon from Iowa—at least insofar as public funds were concerned. But the expense account mentality seems to have destroyed it....

Speaking of conservatives, one thing about them that drives me to distraction is their tendency to assume that rich people are smart and virtuous and that the poor are stupid and shiftless. The truth is that some poor people are poor precisely because they are virtuous. Some others have simply had bad luck. And some rich people are stupid and have become rich only because of good luck or because they are *not* virtuous....

In case you think that the excerpt from "Yes, Prime Minister" that appears in this issue must be a fiction that could never happen in real life, consider these excerpts from a UPI story by Neil Roland:

"WASHINGTON — Army spy units with the sanction of the service's top generals, padded their budget by $170 million in the early 1980s by improperly dipping into funds to which they were barred access....

"Investigators have uncovered widespread abuses...including theft, loss of thousands of dollars in cash and expenditures such as liquor bills as high as $1,197 a month....

"...accounting records were routinely shredded with the approval of General John Vessey....Vessey said that the documents had been destroyed to preserve the operations' secrecy, not to conceal the transfer of funds....

"Following a legal review last June, the Army decided not to act against the seven senior officials [who were involved]....However the Army has pursued a variety of actions against more than 500 lower-level officials....

"The Army now is holding a mid-level bursar principally responsible for the loss of funds and has ordered him to pay the government about $80,000....

" 'It was a classic bureaucracy at work,' one official said. 'Everyone was responsible, yet no one was responsible—giving top officials deniability.' "

One episode in the story provides a classic illustration of how elected officials like Hacker in the "Yes, Prime Minister" story or cabinet or subcabinet members, like Army Secretary John Marsh, are duped by senior civil servants and high military officers:

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"In one case, [Col. James] Longhofer, the head of the special operations division, sought Marsh's approval for a surveillance operation over Central America to be conducted with two aircraft. However, Longhofer's memo omitted the fact that the Army did not have the planes....

"Marsh approved the operations, and Longhofer used the secretary's assent as license to buy the two aircraft on the commercial market.".. .

Speaking of the military, the Navy is proceeding with its plan to build two new aircraft carriers, bringing the total to 15. But guess what? It won't have enough planes to put on them. By devoting so much of its budget to ship construction, the Navy has allocated insufficient funds for aircraft. So when the sirens sound general quarters, summoning the crew to their battle stations, those great elevators will rise to the flight deck—empty.

Let me hasten to add that the solution to this mess is not to build more planes but to cancel the two carriers....

The New York Times is making a clean sweep of our honors this month. Incredibly, it has produced *two* winners of our Incurious Management Lackey Award. The first is Robert D. McFadden, who in his May 20 account of a *Times* dispute with its unions was able to get a full statement of the owner's side but was somehow unable to locate a union spokesman, whom he said "could not be reached by telephone for comment last night at his office or home."

Then comes Mark Uhlig, who, writing about the same dispute, reported on May 26:

"The telephones at the home and the office of the president of the Newspaper and Mail Deliverers' Union of New York and Vicinity, Jerry Cronin, were not answered or were busy late yesterday."

Why, the curious might ask, did each reporter pursue only one union source and then only "late yesterday" or "last night"?...

Mutual respect among those who work for it is one of the characteristics of a good organization. I remember when I worked for the Peace Corps in the sixties, I would look at the people around me and feel proud to be in their number. What then are we to make of the Reagan administration? Among its alumni who have written books that are seriously critical of former colleagues are T. H. Bell, Martin Anderson, Anne Burford, Larry Speakes, Michael Deaver, Donald Regan, Alexander Haig, and David Stockman....

Seven thousand three hundred jobs can be eliminated from military headquarters around the world, according to a study commissioned by Frank Carlucci. Anyone who has been in the service knows that the word "headquarters" is synonymous with long lunches and leaving early Friday, so that the true figure is probably three or four times greater. The problem is the slot solidification syndrome that I have noted in this column before. It means that once the headquarters are established and various staff jobs are created, people begin to look forward to those assignments so that pressure grows for the headquarters, and the jobs that go with them, to endure even though the need no longer exists. An example of such a headquarters is the United States Forces Caribbean Command in Key West, Florida. It was established in response to the reports of a new Soviet brigade in Cuba. It turned out that the brigade was fictitious, but the headquarters live on because everyone wants a tour of duty in Key West....

I am not an advocate of the death penalty, but there are a few cases for which I can see how reasonable men could think it justified and would be appalled at civil liberties lawyers spending thousands of hours trying to save clearly guilty defendants. One example is the robber who, when a New York subway clerk refused to give him money, poured flammable liquid into her booth and ignited it. The only parts of her body that weren't burned were her armpits, and the soles of her feet.

The tremendous effort that is made to save monsters like the one who committed this crime from the death penalty could be far more wisely devoted to improving the police so that the innocent will be protected from such horrors and the guilty apprehended and convicted....

Reform seemed inevitable. *The New York Times* got on the case. So did an aroused public. I'm talking about those custodians of New York's public schools whom I mentioned a few months back who were being paid as much as $70,000 a year and then

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being paid $50 extra each time the school building was opened, whether for a day of school, a PTA meeting, or a basketball game. They appeared to do little else besides turning the key as school buildings deteriorated and became filthier every day.

So the reform finally happened. What did it consist of? Under their new contract, the custodians are given a $5,900 raise in return for surrendering their opening fees. But they still have to open the schools only one night a week. And they still don't have to mop the cafeterias more than once a week....

There are some threats that society can make that seem far more likely than the threat of jail to deter undesirable behavior. One that I think we could make much better use of is depriving the young of driver's licenses for reckless or drunken driving.

A bill now before the California legislature would deny licenses to teenagers who have bad records in school. And Robert Morgenthau, the United States attorney in New York, in a move that could end the drug problem in Manhattan overnight, has threatened to evict offenders from their apartments. To the average New Yorker, the prospect of losing a good apartment is worse than the prospect of losing a good job, probably ranking just below losing a child or a spouse, although the trade-off between some spouses and the apartment might elicit the same response the robber got when he said to Jack Benny, "Your money or your life."...

Greek and Turkish leaders from Cyprus are meeting in Geneva this summer to discuss reunification. My question is why? Aren't the two communities better off apart? Isn't the centuries-old hatred between them beyond any realistic prospect of healing? There is substantial evidence that when the Greeks and Turks intermingled on Cyprus, they didn't embrace. Instead, they pulled out their guns and started shooting. I know this will offend Americans with their automatic prejudice in favor of union that came out of the misery of the Civil War, but there are some hatreds in this world that are much worse than those that have divided us, hatreds that are so strong that separation is the best way to keep peace. While there are some terrible bigots in our midst, the sweetest and most reasonable of American blacks and whites do not hate one another. But I have known the sweetest and most reasonable Greeks to froth at the mouth when one even hints at the possibility of any virtue in the Turks, and I have seen the sweetest and most reasonable Turks react the same way to similar hints about the Greeks. Let them live in peace—apart....

To an astonishing degree, modern social life has come to center on the work place. The highly mobile nature of American life that has cut most of us off from our roots means that, especially in large cities, the tie that binds is the workplace, where friendships are formed and around which social life is centered. In Washington, the government agency is usually that place. The Pentagon is the supreme example. There are, as a recent article by Bernard Trainor in *The New York Times* pointed out, clubs for sailing, skiing, hiking, bowling—even spelunking—as well as computer user groups and Department of Defense employees' travel tours. The courtyard in the center of the Pentagon on a sunny day is, according to one official, "like a town square in Mexico. All the singles and divorcees are out there eyeing one another as they try to line up a happy hour date."

There is so much that is good about this that one dislikes pointing out the downside, but it is real and it is a problem for the rest of us. Pentagon employees and those of other government agencies don't have enough contact with the rest of the country. This isolation makes them confuse the national interest with their own bureaucracy. The result is that the civil servant in the Bureau of Mines thinks more about the welfare of his fellow bureaucrats than he does about the welfare of the coal miners, and the Pentagon GS-15 worries more about increasing the defense budget than about reducing the size of the deficit that his fellow citizens are going to have to pay off....

People have been asking me what was stuck in my lapel in the photograph that appeared on our cover last month. It was a World War II discharge button. I wore it every day, because, although I was 19 at the time, I looked 15 and wanted to prove to the girls that I was at least old enough to be a veteran....

—*Charles Peters*

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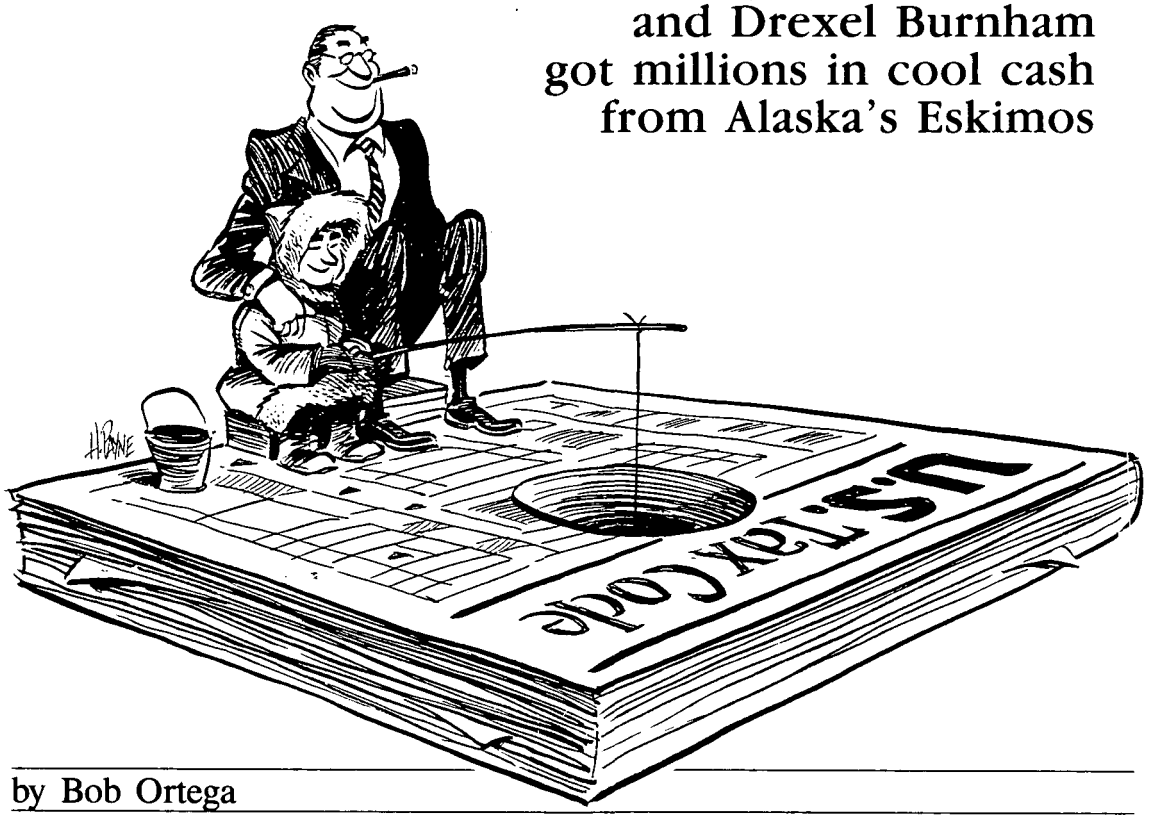
Ice Fishing

How Pillsbury, Quaker Oats, and Drexel Burnham got millions in cool cash from Alaska's Eskimos



by Bob Ortega

It was midnight when the Nome fire siren began to howl. Charlie Johnson, an Eskimo from the tiny village of White Mountain, was in a good mood as he walked past the bars that line Front Street. Earlier that day, a council of Alaska native leaders had agreed to a plan that Johnson hoped would shore up dozens of native corporations teetering on the verge of bankruptcy. Now Johnson and several of those leaders gathered at the siren's call to watch the end of a thousand-mile dog sled race from Anchorage. What Johnson didn't realize was that he was about to begin his own odyssey—one that would lead him 5,000 miles away to Capitol Hill and start a stampede of investment bankers to Alaska, line the pockets of lawyers and accountants by the score, and rip open a tax loophole that to date may have cost the U.S. Treasury $1 billion. All he had in mind was balancing the books.

In 1971, Alaska's natives won a giant settlement of their vast ownership claims on the state's territory. Instead of paying straight cash, or establishing reservations (as had been done with tribes in the lower 48 states), Congress created native corporations to manage the lands and money turned over in the settlement.

Bob Ortega is a reporter for The Anchorage Times.

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Now, 13 years later, Johnson, as president of one of those corporations, faced the prospect of having to tell his fellow shareholders that their most precious heritage—the land—was in danger of being lost through foreclosure. Many of the 187 native corporations faced the same danger, because they'd pledged land as collateral for business loans that had gone sour. But Johnson thought he'd found a way out—a potential tax loophole that would allow the native corporations to sell their losses to profitable companies seeking tax write-offs. If Pillsbury needed a $10 million tax credit, it could just buy it for, say, $7 million or $8 million from a native corporation. The native corporations get cash, the companies get a juicy tax break, and the U.S. Treasury loses money.

The plan would succeed beyond Johnson's wildest dreams. In the four years since that meeting in Nome, native corporations have made roughly 100 such sales, according to state financial records. I've been able to obtain figures for one-fourth of those transactions—and they show that in those cases alone the native corporations have picked up more than $500 million, at a cost to the federal government of more than $650 million in lost taxes. That $150 million difference is money lining the pockets of Drexel Burnham Lambert, Pillsbury, Marriott, Quaker Oats, Campbell Soup, and other wealthy corporations. With three-fourths of the records unavailable, even a conservative estimate would double the amount if all loss sales were known.

Since 1984, courtesy of Congress, Alaska's native corporations have been the only ones allowed to sell their losses to businesses seeking tax write-offs. Before that, many American corporations had sold their losses, costing the treasury billions of dollars. Congress closed that loophole, but exempted the native corporations. An amendment in the 1986 Tax Reform Act extended that exemption until 1991 to help ailing native corporations get back on their feet. At the time, Congress thought the measure would cost only about $50 million in lost federal revenue.

Because of the secrecy surrounding many of the deals, it's only recently that anyone in Congress has come close to realizing the full extent of the losses. In late April, Dan Rostenkowski, chairman of the House Ways and Means committee, introduced a bill to end the exemption, which has cost at least 13 times as much as originally predicted. "No one really knows how much it's cost so far, or how much more it may cost," said a Ways and Means committee aide. (In part, that's because native corporations are exempt from most Securities and Exchange Commission reporting requirements.) "But," continued the aide, "it's clearly a lot more than Congress intended."

The native corporations respond that they've done nothing that other businesses haven't also done. "I find it hard to apologize for making shrewd business decisions, particularly when others also receive. . .government financial incentives," wrote Byron Mallott, chief executive officer of the native corporation Sealaska, in a public letter last year. They argue the criticism being leveled against them is part of a larger pattern through which whites manipulate the law while natives suffer.

A series of articles published by *The Philadelphia Inquirer* in April bears out the fact that tax breaks haven't been reserved for Alaska natives alone. The paper found at least 650 exemptions in the 1986 tax act which saved wealthy individuals and companies more than $10.6 billion in its first year. Rostenkowski should know. According to the *Inquirer*, he approved the custom-tailored tax break that saved Joseph E. Seagram & Sons Inc. up to $40 million—after receiving $8,000 in speaking fees and political contributions from the company and its owners in the preceding two years.

Meanwhile, the benefit to be made from loss sales has diminished, thanks to cuts in the corporate tax rate that were part of the 1986 Tax Reform Act. That year, each dollar of losses saved 46 cents in taxes. That figure has now dropped to 32 cents on the dollar.

A $50 million hole

Like so much else in Alaska, the real beginning of this story can be found in the fight over the trans-Alaska pipeline. Alaska natives had been fighting for decades to get recognition of their land claims when, in 1968, they acquired a powerful new ally: the oil industry. That year Atlantic Richfield announced the discovery of 9.6 billion barrels of oil at Prudhoe Bay, and a group of oil companies subsequently unveiled a plan to build an Alaskan pipeline. Many of the native claims included land the proposed pipeline would cross. Fearing that their permits to build a pipeline would be held up interminably while native claims dragged through the courts, oil companies lobbied Congress for a settlement giving the natives large amounts of land and substantial discretion over how to use it. Ed Weinberg, the former Interior Department solicitor general, later told journalists that the 1971 settlement was due "two percent to the justice of the case, and ninety-eight percent to the need for oil."

Congress compensated Alaska natives to the tune of 44 million acres of land and $962 million. In an acknowledged experiment in social engineering, the

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land and money were turned over to newly created regional and village corporations in which all the natives were entitled to receive 100 shares. The corporations were supposed to use that money to develop those stereotypical Alaskan industries—like logging timber, mining minerals, and fishing. The idea was to make natives "total business partners in the state," said Alaska Senator Ted Stevens. The corporate structure was intended to give the natives financial security while protecting lands traditionally used for subsistence—hunting, fishing, trapping, and berry-picking. The corporations were even given special legal status: no stock could be sold or traded for 20 years, and undeveloped lands were exempt from taxes for the same period. The corporations were also given a mandate: go out and make money.

Unfortunately, in most cases they went out and lost money. Most natives just lacked the training and experience to charge full-bore into the brave new corporate world. Delays in implementing the claims act, and the downturns in fishing, timber, and oil didn't help matters. A sizable minority of natives remains convinced that the claims act was an elaborate shell game that will eventually leave them with nothing and the white man with everything.

"The dominant culture has more experience with games that are devious to most of mankind," said June Degnan, a board member of the Bering Straits Native Corporation. Bering Straits is the regional corporation for Alaska's wind-swept Seward Peninsula and for St. Lawrence Island in the Bering Sea. Its 6,500 shareholders are primarily Inupiat and Siberian Eskimos, most of whom still hunt and fish for what they eat and trade for what they need. After its incorporation in 1972, Bering Straits frittered away its capital pursuing a series of stunningly ill-advised investments, including a failed hotel venture in Fairbanks, which already had a hotel glut, a failed tire company, a failed concrete plant, and a failed construction company. Over a 14-year period, a succession of executives steered the corporation into a $50 million hole. By the early 1980s, when Charlie Johnson became its president, Bering Straits had been reduced to selling off chunks of land and foundering subsidiaries. In 1986, it was forced to file for protection from its creditors under Chapter 11 of the federal bankruptcy law. It wasn't alone. Only one regional native corporation—Ahtna Inc.—has stayed in the black every year.

Stevens says Congress is partly to blame because it delayed land transfers for years while other Alaska land issues were hashed out. "And Congress said 'Oh, by the way, we'll pay you your money over a 10-year period,' " Stevens said. "So during Alaska's great boom they didn't have the land or the money to take advantage of it." A recent report by the Association on American Indian Affairs, a New York-based advocacy group, concluded that flawed implementation had cost native corporations "tens of millions" of dollars in legal and administrative fees alone. Due to rampant inflation during the 10 years over which most of the payments were made, the reports concluded, the settlement's "actual value was far less than anticipated." Seventeen years after the act and long past the boom, native corporations are still waiting to receive millions of acres of their land.

Native casinos

In 1983, Charlie Johnson was hunting for ways to keep his Bering Straits Corporation a step ahead of the wolves when he ran into Patrick Beattie, an accountant for the Anchorage office of Peat Marwick Mitchell & Co. At the time, any profitable company could slash its taxable income by buying small amounts of stock in companies with lots of losses or unused tax credits and then taking deductions. "But at that point there was no reason for profitable companies to do this with Alaska native corporations, when with creative accounting it was much easier to do it with other corporations," Johnson says, explaining that laws that barred native corporations from selling their stocks posed an obstacle.

Johnson says he and Beattie discussed whether his corporation could buy a small amount of stock in a profitable company, allowing that company to deduct Bering Straits losses—and funnel large portions of the savings back to the native corporation. Then they found out that the IRS was about to close that loophole, by requiring that a company buy at least 80 percent equity in an affiliate before any tax loss could be transferred. Johnson and Beattie decided to seek an exemption for the native corporations. After discussing the idea with leaders of other native corporations at that meeting in Nome, they went to Stevens for help.

The reasoning, Johnson says, was that the many financially ailing native corporations couldn't take advantage of their losses because they were unable to raise any money through stock sales. Since they faced that special restriction, they should receive a special exemption. Stevens agreed, and lent a hand. When the 1984 tax bill passed, Johnson got the exemption. And Beattie's firm won the accounting contract for Bering Straits.

Beattie started helping Bering Straits set up a loss sale—and immediately ran into conflict with the IRS. Beattie thought the old law did not require the native corporations to buy substantial equity in the pro-

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fitable company. But IRS attorneys—who were in the midst of legal battles to disallow similar deals between non-native corporations—were demanding a minimum purchase of 50 percent equity, which was too much for the cash-poor native corporations to manage. So Beattie and Stevens met with IRS Commissioner Roscoe Eggers to hash things out. Afterwards, they drew up an amendment that would wipe out any equity requirement. Stevens, various native corporations, and a flock of Washington attorneys began lobbying to tack that amendment onto the 1986 tax reform bill then before Congress.

At the same time, Beattie helped Bering Straits market itself. He crafted a sale of their losses to the Del E. Webb company, a large Arizona development firm that also manages four casinos in Nevada and New Jersey. On June 30, 1986, Bering Straits bought 1 percent equity in Sun City West development, a corporation in limited partnership with Del E. Webb. Through Sun City West, Webb applied $50 million in Bering Straits operating losses to trim its tax bill by an estimated $22 million, and paid the native corporation $8.5 million in return.

It was a straightforward business transaction, said Bering Straits attorney Dick Rosston. To satisfy IRS concerns that the deal was not just a tax dodge, the native corporation indicated it planned to get into the casino-leisure industry. It entered an ongoing real estate partnership with Del E. Webb. This deal opened the floodgates. By showing Congress that some loss sales would occur under the 1984 exemption anyway, it lessened resistance to the 1986 law that made the terms of the exemption more explicit and extended it until 1991.

In considering the extension, Congress's main concern was money: how much would it cost? Beattie drew up projections that were used by the tax committee to estimate a total pool of $250-300 million in native operating losses. The best current figures show the loss pool has turned out to be at least $1.6 *billion*. On the floor of the Senate, Stevens said the $300 million loss pool would cost the treasury no more than $50 million, adding "this is social policy, not tax policy." The amendment became law. Current estimates place the cost to the treasury at about $1 billion so far.

The same accountant who helped Stevens come up with the $50 million cost estimate has been among those most active in helping corporations create new and bigger losses to sell. "This sounds a little egotistical when you say it, but I would say we probably handle about 75 percent of the transactions," Beattie told *The Anchorage Daily News* in late 1986. More recently, Beattie has declined to comment on any aspect of the loss sale or his role in any transactions.

Stevens says even if it should now be re-examined, the exemption was crucial. "That amendment brought a lot of capital into areas where it was badly needed," he explained, pointing to the fact that a number of bankrupt or barely solvent corporations have used cash from the sales to get back in the black and then diversify. "We weren't pursuing a give-away program," Stevens said. "We were saying our corporations ought to be eligible for the same benefits that companies in Texas, Louisiana, and everywhere else had for so many years."

The Juneau doughboy

However apt Stevens's comparison, his strategy of pursuing tax changes rather than direct aid took note of political reality: Congress was opposed to providing natives additional compensation to what they won in the 1971 claims act.

It's clear that for many native corporations, the loss sales have done exactly what they were intended to do—and more. The 13th Regional Corporation, which is based in Vancouver, Washington and represents 4,500 native shareholders living outside of Alaska, was a financial disaster back in 1986. It had lost more than $25 million by jumping into fish processing just in time for an industry-wide recession. It followed Bering Straits into Chapter 11 by five months. But within a year, 13th had repaid all its undisputed creditors, pulled itself out of bankruptcy court, and boosted its assets from $86,000 to more than $5 million. How? By selling its losses to Del E. Webb and Hilton Hotels for $5.2 million, according to the company's financial records.

Kake Tribal Corp., which represents some 500 Tlingit Indians in its tiny Southeastern Alaska village, plunged $4 million into debt thanks to a failed seafood storage plant. But then the village corporation unloaded thousands of acres of timber at a bargain-basement price—and declared an estimated $184 million loss which it sold to Emerson Electric Co. and Marriott Corporation for $61 million. (Those two companies, in turn, saved $15 million on their tax bills.) Kake not only cleared its debts but was able to establish a trust fund with more than $50 million and pay each shareholder a $10,000 return.

Goldbelt, Inc., the village corporation based in Juneau, extinguished $11.5 million in long-term debt by selling an estimated $110 million in losses to Winn Dixie, the Florida-based retailing giant, and to the Pillsbury Co. The buyers lopped about $47 million off their taxes and returned $37.5 million to Goldbelt.

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Down-at-the-heels corporations haven't been the only ones putting losses on the block. Perhaps it shouldn't be surprising that the most consistently successful native corporation has been among the most aggressive in searching out paper losses to sell. Anchorage-based Cook Inlet Region Inc. (CIRI) is the regional corporation for some 6,300 Athabascans, Eskimos, and Aleuts in southcentral Alaska. As an Anchorage economist told *The Washington Post* several years ago, those in charge are not a bunch of people running around with sled dogs and furs. The company's 1987 annual report lists a net profit of $31 million, and assets of $296 million—both figures would place CIRI comfortably in the Fortune 500 if it were a normal corporation. Those assets include half-ownership of a New Haven television station and of 11 major market radio stations, working interest in several mature oil and gas fields, ownership of three drilling rigs on the North Slope and dozens of real estate properties throughout the United States. In addition, CIRI owns 800,000 acres of land and mineral rights on another 1.3 million acres.

In 1987, reporting its 11th straight year of increased profits, CIRI recorded $26.6 million in net revenues from operations and investments. Somehow, the company also racked up an estimated $300 million in tax losses—which it sold for a tidy $102.3 million (of which $73 million went directly into escrow until the IRS gives the deal a thumbs up). CIRI can report increased revenue and income at the same time it claims $300 million in losses because of differences between accounting for tax purposes and accounting for annual reports. CIRI isn't saying who it sold the losses to, although one board member acknowledged privately that at least some of the losses were marketed to Winn Dixie.

Axes to taxes

Not all the corporate deals are in the clear. A number of loss sales are now thought to be under investigation by the IRS. At issue: the nature of the loss. In accountants' jargon, there are "hard" and "soft" losses, explains Mike Stone, a partner at Peat Marwick's Anchorage office. Generally, a hard loss means cash out the door—it's "hard" because you know exactly how much money is gone. A soft loss—while just as real—is more nebulous.

The many loss sales involving timber provide a perfect example of a soft loss. Timber prices have plummeted since many of the lands were transferred to the native corporations from the government in the late seventies and early eighties. The timber is definitely worth less. But how much less depends on a particular corporation's appraiser. "It isn't a question of whether the loss is deductible," Stone says. "It's a question of how much is the loss."

In effect, the loss sales have provided a timber subsidy for native corporations throughout Southeast Alaska. They can cut the trees at or just above their operating costs and make millions. Last year, for example, the Shee Atika Village Corporation, based in the island community of Sitka, sold thousands of acres of standing timber at $20.15 per thousand board feet. That timber would have fetched five times that amount in 1979. So Shee Atika declared an enormous loss that it sold as part of a package to Quaker Oats and Drexel Burnham Lambert for $42 million.

To complicate matters further, few of the lands conveyed under the claims act were appraised in any detailed fashion at the time. So several corporations have gone back and reappraised their resources, "discovering" that the original value and subsequent loss were greater than first thought.

Available financial records suggest that roughly half the native corporation loss sales involve timber operations. State officials say the loss sale exemption has resulted in an explosion of clear cuts in which large portions are razed—raising concerns about environmental damage. In the Ketchikan area, for example, at the southern tip of Alaska's panhandle, the volume of logging has grown from 103 million board feet in 1986 to just under 300 million board feet last year. At several inspected sites, clear-cuts on steep slopes resulted in landslides and erosion, leading to heavy silting of salmon spawning beds. And with a shortage of fish and game inspectors, many sites have gone unmonitored.

While the loss sales have been a boon for many of the native corporations, not all of them have benefitted yet. There are several ailing native corporations for whom planned loss sales could yet provide a lifeline. Among those, ironically, is Bering Straits—whose leaders engineered the loss sales in the first place. Since 1986, while dozens of other corporations sold their losses, squabbling creditors and legal obstacles scuttled a series of proposed deals Bering Straits had pursued. Now it has finally gained approval of the $100 million loss sale that would let it get out of Chapter 11 bankruptcy and recapitalize. But the sale, set for this summer would be blocked by Rostenkowski's bill.

With a policy that has now cost 13 times what Congress envisioned, poured hundreds of millions into the coffers of rich corporations like Quaker Oats and Drexel Burnham Lambert, and still left some of its intended beneficiaries ailing, an obvious question remains: wouldn't it have been cheaper just to bail out native corporations with direct grants? □

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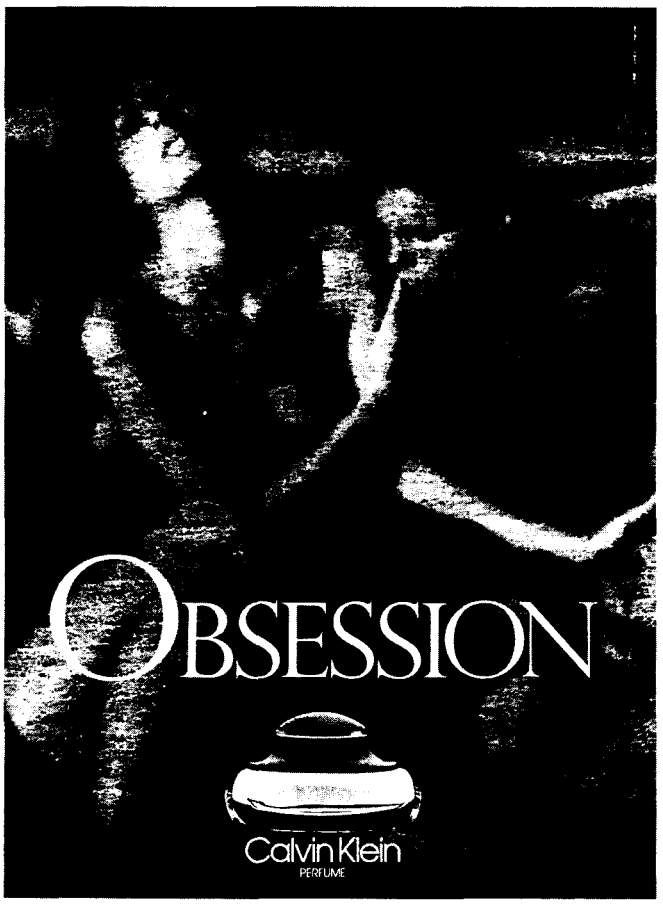
DG81

Manufacturers of chic perfumes say they'll only sell to the finest stores. So who keeps sneaking the stuff to street vendors like Abdul?

Dollars and Scents

by Mark Honigsbaum



Outside the main entrance to Garfinckel's, in downtown Washington, a Viennese waltz wafts over the sidewalk gently beckoning passers-by to the store's ground-floor fragrance department. Inside, in white coats, assistants stand ready with advice behind glossy booths stocked with the latest bottled dream. On a typical day, no small number of limousines will brush the curb and dispatch their cargo—the well-heeled women of Georgetown—into this otherworld to play out their fantasies, whether it's Beautiful (*This is your moment to be beautiful*) or Poison (*Poison is my potion*). Their presence in the store, of course, also serves another purpose. It signals the fragrance's cachet.

A block away is a less elegant perfume department. This one belongs to Abdul Majid, a Pakistani who touts scents from a sidewalk stall. Here, the only wafting rhythms are from the boom-boxes of passing black teenagers. Majid's specialty is surgical instruments, but he also has Nina Ricci, Opium, and Paco Rabanne.

Abdul may not know it, but his stall is a part of the "gray market"—a bizarre network that circumvents the limited distribution of perfumes to the top department stores and puts scents in the hands of "less desirable" vendors like Abdul and the many like him who stand near the department stores on Fifth Avenue, Rodeo Drive, and the Miracle Mile. The gray market also includes many discount drug stores and "cosmetics conventions," where thrifty noses meet. And while you might think it's a boon merely for street vendors and frugal shoppers, the gray market is actually a godsend for the perfume manufacturers. Here's why:

Selling scent is a tough business. For a number of reasons—including an aging clientele increasingly reluctant to spend $185 for an ounce of scent—sales of concentrated perfume at prestige outlets slipped from $231 million in 1980 to $208 million in 1985.

The market's not only shrinking, it's ferociously competitive. With some 800 fragrances, to sustain even those sales levels requires ever slicker and

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costlier promotions. Since the late 1970s, the cost of launching a new perfume has risen from $4-6 million to $11 million and up. Calvin Klein, for instance, spent $17.5 million in 1985 to launch Obsession in an advertising campaign that represented a new high in spending and a new low in sexual innuendo. In the Klein print ads, three blurred male figures pawed at the body of a naked female, while television commercials featured a young temptress breezily driving her boyfriend toward some unspeakable crime: "If Obsession is a sin, let me be guilty," he intoned as he was consumed by flames.

If your business is manufacturing clock radios or tube socks, there's a way to deal with a competitive market. You try to cut your prices or you hustle to get more stores to take your latest digital AM/FM model. But the perfume companies deliberately limit their products to fancy department stores (instead of discount drug and cosmetic outlets) to make them seem more chic. When Estee Lauder brought out the lithe Slav sensation, Paulina Porzikova, to model its racy new fragrance, Knowing, the company limited the distribution from the usual 2,000 outlets to just 168 stores to signal its "utter desirability." In New York City, Calvin Klein's newest scent, Eternity, is sold only at Saks Fifth Avenue. If the perfume were openly sold on Aisle 10 next to the Q-Tips and the Dr. Scholl's footpads, it would lose some of its panache. For the perfume companies, cutting prices would be equally gauche; half the appeal of these scents *is* their price.

photo by Marc Siegal

Trapped in a straightjacket of their own creation, the perfume companies find the gray market offers an easy way out. By turning a blind eye to the diversion of perfumes from prime retail outlets to mass discounters, perfume companies can sell their potions widely *and* keep them prestigious.

Officially, of course, the perfume manufacturers wax indignant. They even went so far as to join other manufacturers in bringing a suit to the Supreme Court that would have outlawed imports to the gray market. Fortunately for Abdul, the Supreme Court rejected that argument. One of their lobbyists, Eugene A. Ludwig, a Washington lawyer representing the Coalition for the Preservation of the Integrity of American Trademarks (COPIAT), calls gray marketeers "unscrupulous businessmen, who pay no advertising or promotion costs, to ride off the brand-name investments of the perfume companies."

But there's no shortage of people in the industry who will tell you that the perfume manufacturers' opposition is merely cosmetic. "The motivation is to control the gray market," said a former executive with American Cyanamid, which used to make Nina Ricci, "to put up enough barriers to stop it from getting out of hand."

After all, the gray market accounts for anywhere between 15 to 35 percent of the industry's roughly $3.9 billion in annual sales. Indeed, Sheldon Kasowitz, who analyzes the perfume industry for Goldman Sachs says that the gray market is actually the engine of industry growth. "Sooner or later," he says, "the industry has to turn to diversion."

Perfume reaches the gray market through one of two ways. Either those pricey little bottles are passed under the table from a prestige outlet (like a department store) to an unauthorized mass distributor who then moves it out to drug stores and street vendors, or they are diverted to the U.S. from overseas outlets, like cruise liners or tourist boutiques. For the department stores, it's worth it. They get a quick, big

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sale,albeit at a lower price than they would get had they sold it over the counter. But since manufacturers ply them with so many scents, and they have such limited counter space, there's always pressure to do some "off-loading."

What's more, perfume companies court the department stores with everything from easy payment plans to gifts for counter assistants. By off-loading a certain amount of fragrance through the back door at wholesale price, the retailers can get instant cash and still make a profit by pocketing the promotional and other expenses the manufacturer has paid him up front.

Ironically, the gray market can also be a cheap way of creating a groundswell of consumer demand. Christian Dior's Poison was a hot property in the U.S. a full year before the French perfume was officially launched here in 1986.

(It's worth making clear that the gray market is not illegal. No one is pulling up in a truck in the middle of the night.)

An attorney for the American Consumer Trade Council, a lobbying group representing discount distributors, says one of his clients used to buy perfume from a number of prestigious department stores. The attorney, Hank Hankla, said his client, whom he dubs "Acme," bought Opium (the perfume, not the drug) on the gray market after its manufacturer, Yves Saint Laurent, refused to provide it directly on the grounds that lowly Acme wasn't prestigious enough.

"YSL may say that it hurts their image to have products sold in small stores," says Hankla, "but my guess is that they are being consciously blind."

The perfume *jihad*

The gray market is fueled not only by department stores but from abroad as well. The trail starts with the export managers for the perfume companies. It's their job to chalk up new orders first and worry later, if at all, about whether the perfume is actually going to the intended customer. For instance, many European companies now export large quantities of perfume to Saudi Arabia and the United Arab Emerates, seemingly without regard to the fact that a great deal of it cannot possibly sell there. As Dr. Fernando Aleu, the president of Compair, New York, a perfume manufacturer, told *Beauty Fashion* magazine: "Even if every camel roaming the desert would be lavishly perfumed, there would still be an excess of fragrance in the region."

Information about how much perfume passes through the region, and through what hands is hard to come by, but during the Israeli invasion of Lebanon in 1982, one industry source claims to have seen thousands of bottles of Yves Saint Laurent perfumes pass through the Beirut airport. (More likely it was bound for the gray market than the cheeks of Druze militiamen.) And according to one fragrance industry attorney, private detectives have been hired by the perfume industry to investigate rumors that Iran is helping the Shiites to manufacture counterfeit perfume to finance their *jihad*.

But most perfume doesn't have to go on a ride to Mecca to get to the gray market. Instead, it is shipped from the perfume manufacturers in Europe to distributors who sell it to unauthorized stores.

Take a look at what happened to Oscar de La Renta. Just before Christmas, 1982, Parfums Stern, its parent company, loaded $40,000 worth of its Oscar de La Renta cologne onto a ship in France supposedly destined for Cancun, Mexico. I say supposedly because as soon as Stern executives parted with the perfume at LeHavre, it was shipped straight to Miami. How did it get there? By Parfum Stern's Panamanian affiliate, Dew S.A.

There it was discovered and seized by Customs Service agents, who noticed that it failed to meet the requisite Food and Drug Administration regulations. Because perfume destined for the gray market is intended for countries with less than exemplary labeling standards, it can be easy to spot when it shows up in the U.S. (In this case of Oscar de La Renta perfume, copies of the FDA detention notice show that it violated U.S. rules by not clearly stating the manufacturer's name.)

For a corporate executive who's seen his cargo hijacked, Michael Stern, the company's president, is awfully forgiving. He acknowledges that the cargo was never intended for the U.S. but absolves his Dew S.A. affiliate. His explanation: the scheme had probably been devised by the distributor in Cancun without Dew's knowledge. "Cancun is a busy resort and this shipment was in November, just before the start of the winter holiday selling season down there," he says.

But if the company was truly hurt by the diversion wouldn't it have broken off its contracts with Dew? It didn't, which leads one to wonder.

There's no diversion in his company, Stern says. But he's quick to point a finger at others. (Of course, this is a little like Lee Iacocca saying all the lemons roll off the assembly line at GM, not Chrysler.) "It might not come from top management but from within a division or from within a country," he says. "Sometimes you get pressure within a division to pick up a quick sale."

Panama, for instance, is the home to many a gray market diversion. It's, well, the place for all kinds

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of illicit shipments. Virtually every major perfume company in the world has an affiliate there and according to a report last year by the French embassy in Panama, one of the most well-known diverters is Motta International, S.A. Yet despite the company's notoriety it retains exclusive distribution contracts with Yves Saint Laurent, Christian Dior, Guerlain, Givency, Paco Rabanne, and Nina Ricci.

A report on the U.S. gray market by France's leading perfume trade association said a number of manufacturers had simply ceased to worry about the problem. The French report concluded bluntly that "certain manufacturers have found in the parallel market a means of extending, in a period of relative stagnation, their distribution area and therefore their volume of sales." The report also quoted Giorgio's former chairman and CEO Fred Hayman's view that: "If the parallel market in the United States exists on such huge proportions it is probably because the manufacturers have only one eye open."

An anthropologist looking at all this would wonder what drives people to such lengths to preserve their sense of prestige. Fortunately, some Margaret Mead of cosmetics would also discover a few hopeful signs. In Canada, perfume manufacturers long ago gave up the pretense of prestige pricing and now sell direct to mass outlets, launching new perfumes whenever an old one loses its appeal.

Can it be much longer before Americans see through all this, too? Maybe, maybe not. Last year, for instance, perfume companies launched a record 33 scents, but the one that made women swoon was Passion—$35 million in sales in just a few months on the market. How did the manufacturer achieve this remarkable return? By getting Elizabeth Taylor, the biggest (slimmed down) celebrity available, to plug the perfume as her own. The sell line: "Be touched by the fragrance that touches the woman."

But Americans are also turning away from status and towards the perfume clone—pretty much the same smell, but at a much lower price. "If you love Giorgio, you'll love Primo," boasts Parfums de Coeur, whose reported retail sales of $100 million last year makes it the largest of the new copycat manufacturers. Founded seven years ago by Mark Laracy, a former Ritz executive who helped launch Opium, Primo from Parfums de Coeur costs $7.50 an ounce, compared to $135 for the "real thing" from Giorgio.

Although Laracy has run into trouble amidst charges of false and deceptive advertising—Giorgio succeeded in getting an injunction against his commercials running on cable TV—it is hard not to root for him. His copies of Opium and Poison, for instance, are mockingly named Ninja and Turmoil. William Fitzgerald, a cosmetics consultant based in Maryland, concludes that the jig is finally up. "The U.S. market is up for grabs," he says. "There's no cachet or mystique anymore. Women are bored."

It would be nice if he were right. But as long as the ladies of Georgetown keep bringing business to the prestige counters, the fragrance industry can always count on there being a gray market for their envious imitators. Meanwhile, Abdul is hedging his bets that there might be a day when Americans put aside some of their snobbishness. Tucked away in a corner of his stall, he has a box of scents in plain blue bottles. Just in case. □

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MEMO OF THE MONTH

THE JOINT CHIEFS OF STAFF
WASHINGTON, D.C. 20301

12 July 1985

MEMORANDUM FOR DISTRIBUTION

Subject: OJCS Policy on Split Infinitives

1. Split infinitives are not to be used in OJCS correspondence. The following information is provided to help in complying with that policy:

a. Definition. An infinitive is the form of the verb preceded by to: e.g., to write, to do, to be. Splitting an infinitive (i.e., inserting an adverb between "to" and the "verb") should be avoided because (1) it typically produces an awkward construction and (2) the adverb usually functions more effectively in another location.

b. Options

Instead of: It was impossible to even see a foot ahead.
Use: It was impossible to see even a foot ahead.
Instead of: He always tries to carefully do the work.
Use: He always tries to do the work carefully.

2. Please give this information wide dissemination.

FRANK M. APPLIN
LTC, USA
Chief
Action Management Division

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Except for the foundation that caved in, the GAO audit, and the Department of Justice investigation, everything went fine.

The Specter Initiative

by Jay Gourley

It was a $48 million government initiative. Its chief proponent in Congress wanted to demonstrate once and for all that, despite the dismal record of America's prison systems, criminals in fact could be rehabilitated. The money—all of it—went to the District of Columbia. That much we know. Exactly where it ended up is a mystery, the ending yet to be written by the United States Justice Department.

The story begins in 1983 with Senator Arlen Specter. The Pennsylvania Republican wanted to spend $100 billion to rehabilitate salvageable lives now lost in America's prisons. One hundred billion dollars is an enormous sum. It's five times what NASA spent over the 10 years of the Apollo program that took man to the moon. It's equal to the budget of a government agency called the United States Air Force. So Specter's idea was not easy to sell in 1983, while Reagan and the Congress were liquidating national assets to minimize already record deficits. But Specter seemed determined to have his way. And as chairman of the Appropriations Subcommittee on the District of Columbia, which helps control the District's large federal payment, he had the clout to make a start.

What could make a Republican senator (and a former district attorney to boot) want to spend $100 billion on the kind of crime measure usually preceded by the word "coddling?" Bold programs tend to attract the kind of publicity to which Specter's career has demonstrated he is not averse. A graduate of Yale law school, the former prosecutor from Philadelphia had served for eight years until voters turned him out in 1974. But he had learned to enjoy public life, and in the years that followed he sought statewide office three times before winning a United States Senate seat in 1980. Specter's first chairmanship was the Juvenile Justice subcommittee of the Judiciary Committee. From that perch, he held hearings on, of all things, Joseph Mengele, Hitler's so-called "Angel of Death." His hearings entitled, "Pornography and its Effect on Women and Children," which ran from August to November of 1984, brought porn stars to the Senate and headlines to Specter.

Whatever the motives for Specter's ideas on rehabilitation, his aide on the Appropriations Committee, Tim Leeth, tried to make them a reality. Leeth says he doesn't remember, but the General Accounting Office (GAO) reports that in July 1983 he placed a call to the D.C. Department of Corrections (DCDC). He spoke to William D. Golightly, a career administrator at DCDC, then in charge of Administrative Services. The GAO says Leeth raised the possibility of a special appropriation for prison education.

Golightly called back a few weeks later to say that DCDC did in fact need an extra $750,000 for that purpose. Leeth said that the Appropriations Committee was considering a much larger sum. Golightly called back to say the department had reexamined

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its requirements, and—whaddya know?—discovered it could use $8 million to "substantially expand" its prison education program.

But Golightly and others at DCDC were not ready for what came next: A few weeks later, Specter dwarfed DCDC's wildest dreams by reporting out an appropriation of $22 million with a promise of more to come—$48 million in all—for teachers, classrooms, books, equipment, and job placement counselors. By November 1983, with only four months to plan, the spigot opened and the unexpected money began to flow into a bureaucracy woefully incapable of handling it.

Two years later, in 1985, Specter explained his actions:

"I have urged, as you know, that there be a national commitment for $10 billion a year for 10 years to deal with this problem of violent crime. . . . As chairman of this subcommittee, I have tried to add funds to Washington, D.C., which, on a pro-rata basis, would be the equivalent of that kind of a massive federal attack, and if we are able to show success here. . .we can show a track record on results."

Like most of what we know about the program, the quote is from a document, in this case the transcript of a three-year-old subcommittee hearing. Nowadays, the senator uncharacteristically shies away from interviews on this subject. So do several key participants in the program. Why? Perhaps because the hopeful program that proudly came to bear his name, the "Specter Initiative," produced a "track record" of little more than waste and incompetence, providing a classic illustration of how a bureaucracy responds when Congress tries to get it to do too much too fast.

Tumbling down

Of the $48 million, $12 million went to the D.C. Department of Public Works (DPW) to build seven new prison school buildings by October 1985. None were finished on time, three were finished late, and to this day four are not finished at all.

According to a report by the GAO, the project ground to a halt when the new foundations didn't match the architectural plans. DPW had originally planned to pay the architects to oversee the construction, then it decided to supervise the construction itself. That might have saved the taxpayers the $45,000 originally allotted for the supervision. However, the one full-time city inspector assigned to the seven projects, reports the GAO, was absent when much of the work was done. The contractor who laid the foundations tried to correct the problem at one site by laying a good foundation on top of the bad one. But the combined weight was too great for the soil, and the whole mess had to be pulverized and hauled away.

More than three years after the original design contracts were awarded, DPW had spent more than half of its $12 million for the project without finishing any of the seven buildings. Another $4.3 million will be needed to finish them, according to the District's 1988 budget. GAO concluded that congressional pressure was partly to blame for the calamity since it resulted in inadequate planning time. But GAO also blamed DPW for "inadequate oversight" and for a procurement system crafted less for efficiency and competition than to protect non-white contractors, D.C. residents, handicapped citizens, and workers who are non-white or female.

According to a senior official at GAO, Gene Dodaro, the agency originally planned to look at the whole Specter Initiative. But when auditors finished in October 1987, their report dealt only with the $12-million construction debacle at DPW. They did not audit DCDC, which spent the lion's share of the money. (DPW had been responsible only for capital construction, but DCDC spent the money Congress allotted to operate the program.) GAO did not audit the larger expenditure because it says auditors found evidence of criminal wrongdoing. They turned their findings over to then-U.S. Attorney Joseph diGenova. Neither the auditors nor the federal prosecutors will describe the evidence they say they found. But sources familiar with the investigation in the early stages cite examples of theft; one mentioned payroll fraud.

Until 1982, the D.C. prisons were the responsibility of Delbert Jackson. Over the years, this black administrator became highly regarded by many of the assistants he picked, many of whom still hold influential DCDC positions today. After Jackson's death from a heart attack in 1982, Mayor Marion Barry appointed an outsider, Barry's long-time friend James F. Palmer, to head the agency. Seven months later, the Specter money started flowing.

Palmer, 59, is a tall, gray-haired, black man who lives with his wife in southeast Washington. He'd spent 24 years in the U.S. Marshals Service but had no direct experience in prison administration. Friction is common between career civil servants and newly appointed bosses from the outside. But Palmer's management style came under unusually harsh attacks from a number of quarters.

"Palmer didn't trust anyone," says Chuck Lindsay, a career administrator who is now retired and who also is black. "He was paranoid. . . . It wasn't

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"Staff meetings were a joke," Lindsay said. "They always ended with someone being threatened and Palmer warning everyone that he was the mayor's best friend."

just me. . . . He couldn't trust anyone. Staff meetings were a joke. They always ended with someone being threatened and Palmer warning everyone that he was the mayor's best friend." Similar assessments were offered by other long-time corrections officials who are reluctant to speak openly because they still work there. Palmer declined to be interviewed.

Peggy Nolan was a leader of the Washington Correctional Foundation, a group of mostly white do-gooders who wanted to contribute time and/or money to the city's rehabilitation programs. "Palmer saw all these white faces, and he got scared," she says. "We wanted to help, but he came to think of us as an enemy."

Palmer's style of management did more than simply alienate. His obsessive secrecy left his staff unable to find him one night in 1986 after a riot at the Lorton penitentiary had ended with a shotgun fusillade that wounded 13 inmates. According to the *The Washington Post*, "Palmer had spent much of the day attending a retreat for city officials and another meeting at the convention center. He was informed by subordinates that afternoon that tear gas had been used to try to disperse the inmate demonstrators, he said, but he did not believe that a major disturbance had occured that would require his presence.

"Palmer, invoking confidentiality in what he said was a personnel matter, declined to discuss his whereabouts later that night, when subordinates said they were trying to reach him. But he insisted that he was wearing his pager."

The Palmers that be

Such was the state of DCDC's leadership when the Specter windfall began.

Palmer's first appointment to head the Specter Initiative was Patricia Taylor, one of those who'd worked under former director Jackson. But she didn't last long. She says Palmer and the mayor's office wanted her to give a large sole-source contract to a woman named Elizabeth Abramowitz who ran a small psychological consulting firm. Abramowitz is the sister-in-law of Ron Dellums, a California congressman who is chairman of the House District Committee and a man with enormous influence over the District.

Taylor says she rejected Abramowitz's proposal because it was pointless gibberish. (The proposal I saw touted things like the firm's "Knowledge of Washington, D.C. and predisposing factors contributing to being known to the courts.") Taylor says that the contract was designed to circumvent the bureaucracy's complex purchasing and civil service requirements. Abramowitz declined to comment.

Taylor says her orders to approve the contract came from City Administrator Tom Downs, Mayor Barry's chief of staff. Downs says he was only encouraging Taylor to expedite matters, and the idea of using Abramowitz came from Specter himself. "At some point along the way Sen. Specter strongly suggested that we use these kinds of people," Downs says. "Every dime of our budget comes from that subcommittee. So when he talked, we listened." Again, Specter has declined comment.

The woman who replaced Taylor was Margaret Labat, who was then a D.C. public school official in charge of adult education. It's difficult to determine who actually chose Labat, because no one claims the dubious honor. City administrator Downs says the mayor's office had little to do with it: "That was Palmer's idea. He had known Dr. Labat for 35 years. I think they went to public school together." Palmer won't say if that's true. And Labat declines

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to say anything about the program.

Hubert Robinson, who later worked for an advisory committee monitoring the program on behalf of the Appropriations Committee, says the decision was made in a roundabout way by then-school superintendent Floretta McKenzie. "[Labat] had been put in a meaningless job more or less to keep her out of the way. But she was still one royal pain in the ass to McKenzie. So when Barry asked about someone for the new corrections job, McKenzie gave Labat a glowing recommendation just to get rid of her." McKenzie won't comment. (On March 21 of this year, after extensive interviews with both Nolan and Robinson, the two wrote me a joint letter, cautioning me not to "attribute any libelous remarks relative to anyone involved in the Initiative to either one of us. We repeatedly told you that neither of us had any evidence of corruption whatsoever." But they did not specifically disavow any of the statements quoted in this article.)

However Labat may have been chosen, there is little dispute that she faced a formidable task—to create at nine different correctional facilities, a huge model program in prison education, complete with curriculums, faculty, administration, supplies, classrooms, and students. What's more, Specter wanted quick results, according to *The Washington Post*, which wrote that Specter had put DCDC "officials on notice. . .that he expects to see concrete results within months." That was four months before Labat even assumed formal control. She had too much money and too little time to spend it.

Chris St.John, a former analyst for D.C. Information Resources Management Administration (IRMA), says Labat showed him a plan to buy Apple computers from a vendor not on an approved list. He estimated her plan would cost the city an extra $100,000. When he told her her plan was illegal, he says she threatened to use her influence with Specter to get him fired. St.John says he took the problem to Hal Williams, then in Mayor Barry's office. As St.John recalls, Williams said he'd take care of it, but a few weeks later the sale went through, just as Labat had wanted. Williams won't comment, but city administrator Downs defends Williams's action, saying IRMA is just an "advisory" agency. Williams, who is Downs' former assistant, is now director of DCDC.

In addition several critics say Labat hired dozens of incompetent and unneeded teachers. "The teachers didn't know their subjects," Nolan says. "The inmates were on a fourth-grade reading level. She chose texts they couldn't read. She ordered $350,000 in graphics arts supplies. She didn't even have a graphics arts instructor. The materials just sat there unused." Nolan and others said Labat submitted a staffing authority request for 29 new teachers at one prison, Occaquan III, when the closest thing to a classroom there was a small trailer barely big enough for three people. Nolan says, "It was ludicrous! Her explanation was, 'It's good to have them on board.' "

Lindsay says, "Department of Corrections had never gotten a windfall like that. I think they panicked and they brought in the Labat regime where they were spending money for the sake of spending money. At one point we found computers, typewriters stored everywhere. It was a farce. That's how it ended up, a total farce." Labat declined to comment.

The 32 percent solution

The contract with Elizabeth Abramowitz became a multi-million-dollar channel through which DCDC paid for everything from office equipment to salaries for teachers and principals. This according to Abramowitz's invoices. If the Specter Initiative needed a file cabinet, Abramowitz's firm bought it and billed DCDC for it. Almost 100 Specter Initiative teachers received their paychecks from Abramowitz's firm. The number varied from month to month.

According to her proposal and the bills she sent the city, her fee equalled 32 percent of the goods and services she bought. In other words, if the Specter Initiative needed a $100 file cabinet, Abramowitz's firm would write the $100 check to the supplier, then bill the city $132. The same for airline tickets, consultants' fees, hotel bills, and a host of other goods and services. If a teacher was paid $100 by Abramowitz, the city paid Abramowitz $132.

Not only was Abramowitz's firm allowed a 32 percent mark-up on the expenses run through it, but the city also paid at least part of the salaries of Abramowitz's own employees. And that included $7,800 a year for an "accounts receivable contract manager." In other words, the city not only paid Abramowitz a 32-percent markup but it also paid to have its bill prepared. I was unable to obtain all the invoices, but the ones I have show that at least $2.6 million was paid to Abramowitz for goods and services that originally cost only $2 million.

Invoices show the contract also was used to pay Labat and some of her top people a "salary differential" over and above their regular pay from DCDC. Abramowitz charged 32 percent of this amount too. The differential was approved both by DCDC director Palmer and by Mayor Barry's office. The upshot

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The numbers sound like election results in Haiti. Of the 1,171 inmates in Central Facility, 1,457 supposedly were enrolled in educational programs.

was that city officials were being paid by a contractor under their supervision. In Labat's case, the approved salary differential started out at about $100/week in 1984 and grew to $600/week in 1985. Also, in May 1984, Abramowitz paid Labat $4,700. And a few days before Christmas, 1985, Labat collected $39,481 from Abramowitz.

According to the invoices, Palmer, the head of corrections, used the Abramowitz contract to spend Specter Initiative funds on a 10-day trip to California. A May 24, 1984 letter from Elizabeth Abramowitz's husband, Michael, addressed, "To Whom It May Concern," authorized Palmer to use Michael's American Express card for 10 days beginning May 27, 1984. It allowed Palmer to pay for two hotel rooms and for rental cars, first in San Francisco, then Lake Tahoe, then San Diego. Subsequently, on August 8, 1984, Abramowitz billed DCDC for $2,600 for "Travel/Transportation" for James Palmer. DCDC sources say Palmer was accompanied by a female assistant. Lindsay says Palmer never filed a report explaining the purpose of the trip. Asked about the trip, Palmer did not answer directly, saying only that, "Anything I did about the Specter Initiative was legal and approved." The woman who reportedly accompanied him still works for DCDC. She did not return phone calls.

Labat and Abramowitz both refused to answer any of my questions about their public service during those years. Mayor Barry, on the other hand, ordered at least some of the public documents which DCDC had failed to produce be released to me. Palmer's only comment is the one mentioned above. Dellums also declined to discuss Abramowitz.

Nearly all the problems of the Specter Initiative developed while Specter's subcommittee supposedly was watching its progress closely. Several high officials say they fed documents to Nolan of the corrections foundation, who said she told Specter that he faced a potentially serious embarrassment.

In June 1984, Specter asked former Watergate prosecutor Richard Ben-Veniste to head a special advisory committee on a pro-bono basis.

Three months after Ben-Veniste accepted the assignment, he hired Hubert Robinson, an old friend and retired officer of the Federal Probation Service, to be his liaison to the DCDC. "I went in to talk to Labat and Palmer," says Robinson, who like Labat and Palmer, is black. "I was willing to bend over backwards to be of help. I said, 'Listen, this is a great program. I'm not here to hurt you people. I'm here to help.' They were saying everyone was spying on them and sabotaging them. There was a racial thing. 'The whites are out to get us.' Palmer especially had problems with that kind of paranoia. I told him so. After that interview, they avoided me like the plague.

"They refused to take my advice. So I passed my information on to Richard. Richard said, 'We don't want to get in politics. We don't want to get into a position where the D.C. government is saying that we are trying to dictate how to run the department.'" Robinson says he told Ben-Veniste in detail about program failures and about the efforts to conceal them. "I told him, 'Richard, the program is going down the drain. Down the drain!'" The minutes of the advisory group's meeting on October 25, 1985, during which Ben-Veniste directed some pointed questions at Labat, demonstrates that the group was aware that the Specter Initiative had problems. In fact, most of the classrooms were almost empty. One administrator at Central Facility says a secret audit was conducted over several weeks and could not find any class, not even the most popular, with more than seven inmates in attendance.

But such facts were not reaching the public. Quite

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the contrary, testimony solicited by Specter from high city officials, as well as reports published directly by the city, described a Specter Initiative that was heading for success. For example, in 1984, the year Labat took over, DCDC's official annual report listed "student enrollment" and inmate "population" in separate tables. By comparing them, it appears that of the *511* inmates in Maximum Security, *514* were enrolled in class. The numbers sound like election results in Haiti. Of the *1,171* inmates in Central Facility, *1,457* supposedly were enrolled in educational programs. And it gets worse. Of the *244* women in jail, *327* were in class.

To conceal the absence of students from visiting VIPs like Mrs. George Bush, program officials staged classes using volunteers from the prison yard by offering special dinners from the culinary school in exchange for posing as regular students, according to an inmate. Patricia Taylor says spare male teachers (of which there were many) doffed their coats and ties to be cast as interested students.

The near absence of real students held advantages for the teachers in the program. At one end of the spectrum were those who were grateful for the chance to work with only two or three really interested inmates. At the other end teachers tell of one colleague who spent much of his time sleeping because he did not have the necessary equipment to teach his course in small appliance repair.

On June 6, 1985, the city administrator Tom Downs, with Labat at his side, testified that the percentage of those passing the General Education Development (GED) test had risen from 52 percent to 73 percent in 1985. Alex Hyman is the D.C. public school official who administers GED tests for DCDC. He was not called to testify. But if he had been, he would have told the committee that the passing rate for 1984 was only 63 percent, roughly the same as it's been for many years.

In the same June 6, 1985 hearing, Ben-Veniste told the committee: "In the year or so that I have been involved in the program we have seen, I think, a steady curve that has not always been as sharpwardly [sic] upward as we might like, but I think we are in good shape now." And in what today sounds almost funny, city administrator Downs told Specter, "We recognize now that without your insistence, without your enthusiasm, and in many cases, your demanding support for this program, we would not be where we are today in the District."

Six months later, on December 5, 1985, the appropriations subcommittee met again to review the progress of the Specter Initiative. This was two years after the money began to flow, 18 months after Ben-Veniste had joined the advisory committee. Mayor Barry testified that the Specter Initiative was a proud success:

"Before we started the program, we had about 863 inmates who had some exposure to educational programs within the prison . . . . Since this program has started, we have touched 3,398 persons, some more intensively than others.

"One indicator of the program's success is the GED passing rate. We were at 64 percent in March, 1984, and I am happy to report in October 1985 the GED passing rate was 83 percent. To date, 644 persons have taken that examination and 415 have obtained passing scores."

It's doubtful His Honor could pass the GED test himself, if this is his idea of division. The way I was taught, 415 divided by 644 is only 64 percent. But that may not matter because Hyman's records show that even if you combined totals for both years (1984 and 1985) since the Specter Initiative had gotten underway, you would have only 500 inmates taking the test and only 331 passing. That's a passing rate of 66 percent. And Hyman says it didn't change much from year to year anyway.

Following Barry, Ben-Veniste testified. Afterward, Specter thanked him, saying, "I am glad to have that very positive assessment on your part, Mr. Ben-Veniste, in terms of a very careful analysis which you and your committee have made." In closing remarks, Barry said: "I think when we finish these programs and look at them, it will be a guide to prison systems around the nation." When problems were mentioned they were phrased in a way that was definitely not calculated to cause alarm. For example, Ben-Veniste—who in the first segment of his testimony had said that there was room for "substantial improvements" with "pre-release counseling," "an integrated program of potential job identification" and other problems—ended the hearing with these words: "I do not want to leave any misimpression in terms of the substantial progress that this program has made. I think we have seen a period of learning by all who have been involved in this program from the administration side as to the problems and challenges presented by prison education and vocational training. And I think at this point we are really on the threshold of getting a program implemented which will indeed be a model."

But later that day, the public got a hint of the behind-the-scenes drama when Mayor Barry told Arthur Brisbane of *The Washington Post* that Margaret Labat, "is on her way out by mutual agreement." A few months later in February, 1986, the Federal Bureau of Prisons loaned Gwen Sizer Washington to DCDC to take over Labat's position. But by then, the vast majority of the $48 million was

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gone.

Today the Specter Initiative is over. It was coming to an end by the end of 1986. That was the year Congress passed the last federal payment, $7 million. In December 1986, Mayor Barry announced that Hallem Williams, 39, former assistant to Thomas Downs, would replace retiring director Palmer as head of DCDC.

The GAO's announcement that its investigation had been turned over to the U.S. Attorney came in December 1987. On that occasion, Specter released a terse statement:

"It is very discouraging to see the District government fail to make proper use of federal funds for an important pilot project for prisoner education and rehabilitation. It may be that the Congress ought to have a GAO study on all the funds which we make available to the District to determine what safeguards should be built into the system to see that federally appropriated monies are properly used."

Recently, I filed written requests to DCDC for access to records showing how Specter funds had been spent. DCDC gave me what were represented to be the most complete records available. They account for less than $4 million of the $36 million that went through DCDC.

The sad irony is that when Barry and Ben-Veniste presented their testimony to the subcommittee on December 5, 1985, they spoke the truth. They said the Specter Initiative would be a "guide to prison systems around the nation." Indeed, it will be a guide—of what not to do. □

THE WASHINGTON MONTHLY
Journalism Award

for April 1988 is presented to

David Shaw
Los Angeles Times

With more than 300 bureaus and an audience of more than a billion, the Associated Press is the world's largest news organization. But as David Shaw proves, AP has botched important stories (like the assassination of Amin Gemayel), and its frantic corporate culture prods some of its best reporters to leave. While AP won 16 Pulitzers between 1922 and 1966, it has received only one since 1978. Seymour Hersh told Shaw that when he covered Vietnam for AP, he deliberately wrote his more controversial stories late in the day, after nervous editors had gone home, to be sure the copy would run without being watered down.

Steven Kroft and Steven Reiner
"West 57th Street"

In this unusually critical report, CBS showed just how powerful the elderly lobby has become. With 28 million members, the American Association of Retired Persons has more members than the AFL-CIO. The report also made the important point that "it would take about $5 billion a year to elevate every senior citizen in America above the poverty level, a sum easily raised by fully taxing the Social Security benefits of the elderly with independent incomes of $30,000 a year."

Donald L. Bartlett and James B. Steele
The Philadelphia Inquirer

In an exhaustive series on the Tax Reform Act of 1986, Bartlett and Steele showed how Congress failed to caulk extraordinary loopholes, like the paragraph that exempts a "562-foot passenger cruise ship" from Section 201. That meant an $8 million savings for investors in the *SS Monterey* luxury liner. Section 1275(b) provided much needed tax relief to William H. Bowen, a Dallas financier of conservative causes, whose company has been excused from paying $5.9 million in back taxes and penalties. Tax simplification also restored fairness to investors in the Pacific and Texas pipeline. They no longer have to worry about $500 million in federal taxes.

The Monthly Journalism Award is presented each month to the best newspaper, magazine, television, or radio story (or series of stories) on our political system. Nominations for any newspaper, magazine, or radio or television station in the country are welcome. The subject can be government in its federal, state, or municipal manifestation.

The award for stories published or aired in May and June will be announced in the September issue. Nominations for stories published or aired in July will close August 15. The winner will be announced in the October issue. Two copies of the article or broadcast text should accompany the nomination.

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How To Make a Prime Minister Paranoid

A page from the bureaucrats' playbook

by Jonathan Lynn and Antony Jay

Several years ago, Yes, Minister, *a British book and television series, presented a fictionalized account of how the British Civil Service, personified by Sir Humphrey Appleby, manipulated political leaders, personified by James Hacker. Here, in this sequel, Hacker has become Prime Minister, and Appleby has become the Cabinet Secretary, his chief Civil Service aide. The story of their ongoing battle is told through excerpts from Hacker's diaries and Sir Humphrey's papers, beginning with Hacker.*

July 2nd

Dudley Belling, the Employment Secretary, has clearly been thinking hard during Wimbledon. Straight back from the Center Court he came to me with a fascinating proposal.

In a nutshell, his plan is to relocate many of our armed forces to the north of England. He has come to the realization that, although we have 420,000 service personnel, only 20,000 of them are stationed in the north. Almost everything and everyone is here in the south. The navy is in Portsmouth and Plymouth. The Royal Air Force is in Aldershot. There are virtually no troops in Britain north of the Midlands. And yet—here's the rub—virtually *all* our unemployment is in the north.

Dudley is not concerned about the military personnel themselves. Many of them come from the north anyway. No, what he sees is that if we move two or three hundred thousand servicemen from the south to the north we will create masses of civilian jobs: clerks, suppliers, builders, vehicle maintenance. . .the possibilities are immense, limitless. Three hundred thousand extra paychecks to be spent in shops.

There is really no good argument against this proposal, and I defy the Civil Service to provide one. They should underestimate me no longer. I'm getting wise to their tricks.

[*As soon as the Employment Secretary's relocation proposal was circulated, an emergency meeting was convened at the Ministry of Defense (MOD). The*

This article has been adapted from Yes Prime Minister *by Jonathan Lynn and Antony Jay, Salem House, $19.95.*

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minutes record total approval for the plan, with a note that minor reservations were expressed about the feasibility of certain peripheral details concerning the actual execution of the proposal. Sir Humphrey's private notes, recently released, tell a rather different story—Ed.]

Meeting today at the MOD with Alan Guthrie, the Permanent Secretary for the Ministry of Defense, and Geoffrey Howard, the Chief of the Defense Staff.

Geoffrey was late. Not particularly soldierly, I thought, but Alan explained that this proposal by the Employment Secretary has put the whole of the Ministry of Defense into a state of turmoil.

Alan, who's new, was taking it very badly indeed. I tried to explain to him that it was a perfectly reasonable plan, seen from the Prime Minister's point of view. Alan refused to see it from the Prime Minister's point of view, remarking bitterly that this wretched proposal emanated from the Department of Employment, and defense was none of their bloody business. I corrected him: the plan emanated from the Secretary of State for Employment—the Department itself had nothing to do with it.

Furthermore, as I could see civil war between the two departments looming here, I indicated that all work on the proposal was done by the Employment Secretary's political advisers.

I pointed out to Alan that we should all stay quite calm, and that we were only dealing with a relocation proposal, not a Russian invasion. Alan said: "I'd be less worried if it were a Russian invasion—the Ministry of Defense is prepared for that."

We were all more than surprised to hear this. So he clarified the statement: what he meant was that the MOD knows what it would have to do to repel a Russian invasion. I was even more surprised, and asked if we *could* repel it. He said no, of course not, but at least the MOD didn't have to do any more *thinking* about it.

It was up to me nominally to defend the Employment Secretary's proposal, since the Prime Minister has publicly supported it, so I reiterated that, although the armed forces contain a lot of men from the north, *they* are not the ones who are unemployed now. And the Employment Secretary's scheme is designed to help those who are currently unemployed.

Alan felt that we were doing quite enough already. Many of our troops from the north *were* unemployed, that's why they joined up. This argument won't wash with the PM, who is concerned about jobs in the north, whereas the troops who have joined up in the north are spending all their money in the south where they now are.

Alan said that this was logically inevitable, since there is nothing to spend it on in the north.

Field Marshal Sir Geoffrey Howard joined us. He went straight on to the attack, informing me that this proposal must be stopped. He told me that you can't just move hundreds of thousands of men around the country like that.

I thought that's what you did with armies. It sounds a feeble argument to me. But upon closer examination it was the permanence of the move to which he objected. Quite reasonably.

He conceded that *some* servicemen could be stationed permanently in the north of England: other ranks perhaps, junior officers possibly. But he made it clear, very properly, that we really cannot ask senior officers to live permanently in the north.

I asked for a list of reasons. He obliged.

1. Their wives wouldn't stand for it.
2. No schools. [*There were schools in the north of England at this time, but perhaps Sir Geoffrey meant that suitable fee-paying schools were not accessible—Ed.*]
3. Harrods is not in the north.
4. Nor is Wimbledon.
5. Ditto Ascot.
6. And the Henley Regatta.
7. Not to mention the Army and Navy Club.

In short, he argued that civilization generally would be completely remote. This sort of sacrifice is acceptable to the forces in time of war, but if the move were made in these circumstances, morale would undoubtedly plummet.

I was impatient with these arguments. The matter is to be discussed in Cabinet this afternoon, and more serious arguments are required than senior officers being 300 miles from the club, however disturbing, however true!

Geoffrey could think of nothing more serious than that. He remarked indignantly that chaps like him and me might have to move up there.

I pressed him for objective reasons against the plan. He insisted that these *were* objective reasons. I decided against showing him the dictionary, and enquired if there are any *strategic* arguments against it.

He said there were. Several. My pencil poised, I asked him to list them. He was unable to do so. He said that he hasn't had time to think about it yet, but that strategic arguments can always be found against anything. He's absolutely correct in that.

So when Alan and Geoffrey have had time to find some strategic arguments, we must ensure that if they cannot stand up to outside scrutiny we will make them top secret. This is in any case customary with

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all defense matters, and is the way in which we have always managed to keep the defense estimates high. We will make the strategic arguments *For The Prime Minister's Eyes Only*, which certainly means that they will not be subject to expert scrutiny.

However, the strategic arguments might not be sufficient to deflect the Prime Minister from the Employment Secretary's plan. So I proposed that, for additional safety, we play the man instead of the ball. This is always a good technique, and the man in question is—and deserves to be—the Employment Secretary, whose dreadful idea this was.

The plan we devised involves appealing to the Prime Minister's paranoia. All Prime Ministers are paranoid, this one more than most. It should be child's play to suggest to the Prime Minister that the Employment Secretary is plotting against him.

Geoffrey asked if this were true. Soldiers really are awfully simple people. The question is not whether there is a plot (which, so far as I know, there is not) but whether the Prime Minister can be made to believe there is.

Geoffrey asked if there were any chance of getting rid of him completely. At first I thought that he was referring to the PM, and I indicated that it would be an awful pity to get rid of him after all the effort we've put into getting him house-trained.

But it transpired that Geoffrey meant getting rid of the Employment Secretary. The man is dangerous. If he's moved from Employment he might get Industry—in which case he might try to sell the RAF. Or privatize the army. Or float the navy.

In view of the presence of one or two junior MOD officials at the meeting, I expressed appropriate horror at Field Marshal Howard's notion that humble civil servants should presume to try and remove a member of Her Majesty's Government from the Cabinet. I explained that it was out of the question, that only a Prime Minister can remove Secretaries of State.

Nonetheless, any Prime Minister would be forced to consider such drastic action if he were to suspect the loyalty of a member of his Cabinet. And since only someone in an advanced state of paranoia would suspect the Employment Secretary of a plot....

Before the meeting broke up we ensured that the minutes reflected our enthusiasm for the Employment Secretary's proposal to relocate substantial numbers of our armed forces, at all levels, to the north of England and Scotland. [*Appleby Papers 36/17/QQX*]

[*The day following the secret meeting at the MOD, the Employment Secretary's proposal came up for discussion in Cabinet Committee. Prime Minister Hacker's diary continues—Ed.*]

July 4th

We discussed Dudley's proposal today in Cabinet Committee and I encountered opposition, just as I expected. Sir Humphrey was present. So were Max[1] and Dudley[2] and several others.

Dudley, at my prompting, asked for reactions to his paper.

Max spoke first. He was bound to be against it. "Well, Prime Minister, I know that on the face of it this plan looks as though it might benefit the employment situation in depressed areas. But this is to be achieved, as I understand it, by relocating most of our defense establishments. I suggest that it affects the Defense Department at least as much as the Department of Employment and I need time to do a feasibility study."

I looked around the table. Nobody else spoke.

"Anyone else have an opinion?" I asked. "Quickly." Brian[3], Eric[4], and Neil[5] all looked rather doubtful.

Brian said: "Well, I don't really know much about it, but it sounds like a bit of an upheaval." He's right on both counts.

Eric murmured: "Rather expensive."

And Neil commented carefully that it was rather a big move.

Having had my little bit of fun, I gave my opinion. "I'm thoroughly in favor of the proposal," I said.

"So am I," agreed Geoffrey without hesitation.

"Absolutely first-rate," said Eric, and Neil commented that it was a brilliant scheme. Sometimes being surrounded by yes-men is rather irritating, though it certainly has its compensations. And, after all, since I'm usually right on matters of government strategy it does save a lot of time when they all agree with me right away.

I smiled at my colleagues. "I think that the Secretary of State for Defense is in a minority of one."

Max stood up for himself. He was grimly determined. I have to admire that, even though he can't win this one. "Nonetheless, Prime Minister," he said, "I am the responsible minister and this can't be decided till I've done my feasibility study. The defense of the realm is in question. We must have a further meeting about this, with time allotted for a full discussion."

A reasonable request. I agreed that we would have a full discussion of it at our next meeting, in two weeks' time, after which we would put it to full

[1] *Sir Maxwell Hopkins, Secretary of State for Defense.*
[2] *Dudley Belling, Secretary of State for Employment.*
[3] *Brian Smithson, Secretary of State for Environment.*
[4] *Eric Jeffries, Chancellor of the Exchequer.*
[5] *Neil Hitchcock, Secretary of State for Transport.*

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"People are beginning to talk about him as the next Prime Minister," Humphrey said.

I was startled. "What? What do you mean?"

"I mean," said Humphrey carefully, "when you decide to retire, of course."

"But I'm not planning to retire. I only just got here."

Cabinet for approval.

The rest of the Committee agreed with me again. "Hear hear! *Hear* hear!" they all grunted vociferously.

Dudley asked: "May I request, Prime Minister, that it be noted in the minutes that the Cabinet Committee was in favor of my plan, save for one member?"

I nodded at Humphrey who made notes. But Max refused to accept Dudley's request without comment. "The one member," he remarked stubbornly, "is the member whose department would have to be reorganized. It's quite a problem."

I began to feel impatient with Max. "May I urge the Secretary of State for Defense to remember that every problem is also an opportunity?"

Humphrey intervened. "I think, Prime Minister, that the Secretary of State for Defense fears that his plan may create some insoluble opportunities."

We all laughed. "Very droll, Humphrey, but not so." I dismissed them and, as they trooped out obediently, I remained behind to catch up on the details of Dudley's proposal. I hadn't had time to read much of it before the meeting.

"Er. . .Prime Minister." I looked up. To my surprise, Sir Humphrey had remained behind. I gave him my full attention. Humphrey kept batting on about how the Service Chiefs didn't like the plan. Of course they didn't! One could hardly expect them to appreciate the prospect of moving their wives away from Harrods and Wimbledon.

Sir Humphrey responded snootily to this suggestion. "Prime Minister, that is unworthy. Their personal feelings do not enter into it. Their objections are entirely strategic."

"Oh yes?" I leaned back in my chair and smiled benevolently. He didn't fool me. Not any more. I spoke with heavy sarcasm. "Strategic? The Admiralty Ships Division needs a deep-water port so it obviously had to be in Bath—30 miles inland. The Marines' job is to defend Norway, so we station them in Plymouth. Armored vehicle trials are conducted in Scotland so the military engineering establishment clearly needs to be in Surrey."

"These are just isolated examples," replied Humphrey unconvincingly.

"Quite," I agreed. "And there's another 700 isolated examples in this paper." And I waved the report at him. He gazed back at me, unsmiling, cold, totally unshakable, his piercing blue eyes fixed upon me as they stared at me down his patrician nose. I hesitated.

"Why are you against it, Humphrey?" I felt I had to understand.

"I, Prime Minister? I assure you, I am not against it. I'm simply trying to furnish you with the appropriate questions. Like the question of cost."

He has completely missed the point. "But that's the whole beauty of it, Humphrey. It *makes* money! We sell all those expensive buildings in the south and move into cheap ones in the north. And there would be hundreds of thousands of acres of high-priced land in the Home Counties to sell too."

"So you think the Employment Secretary had done well?"

"Yes, he's a good chap."

To my surprise Humphrey agreed wholeheartedly. "Oh, I do agree with you there. Absolutely brilliant. Outstanding. A superb intellect. Excellent footwork. Strong elbows. A major figure, without doubt."

I didn't think he was *that* good. In fact, I was rather amazed that Humphrey went overboard for him like that. I said as much.

"But he is a good chap," insisted Humphrey. "Wouldn't you say?"

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"Yes," I said. I'd already said it.

"Yes indeed," mused Humphrey. "Very popular, too."

This was news to me. "Is he?"

"Oh yes," Humphrey told me.

I wanted to know more. "Not *that* popular, is he?"

Humphrey was nodding, eyebrows raised, as if slightly astonished by the extent of Dudley's popularity. "Oh yes he is. In Whitehall. And with the parliamentary party, I understand."

I considered this. I suppose he's right. Dudley *is* very popular with the parliamentary party.

"And with the grass roots, I'm told," Humphrey added.

"Are you?"

He nodded. I wonder who tells him these things.

"And he seems to have quite a following in the Cabinet too."

A following in the Cabinet? How is that possible? I'm supposed to be the only one with a following in the Cabinet. "Tell me more." I was curious. "Sit down."

Humphrey sat opposite me but seemed unwilling to say more. "There's nothing to tell, really. It's just that people are beginning to talk about him as the next Prime Minister."

I was startled. "What? What do you mean?"

"I mean," said Humphrey carefully, "when you decide to retire, of course."

"But I'm not planning to retire. I only just got here."

"Exactly," he replied enigmatically.

I stopped to think. "Why," I asked eventually, "should people be talking about a next Prime Minister?"

"I'm sure it's just general speculation," he drawled casually.

It's all right for Humphrey to be sure. But I'm not sure. "Do you think he wants to be Prime Minister?"

Suddenly Humphrey seemed to be on his guard. "Even if he does, surely you have no reason to doubt his loyalty? He's not trying to build up a personal following or anything, is he?"

"Isn't he?"

"Is he?"

I thought about it for a few moments. "He spends a hell of a lot of time going round the country making speeches."

"Only as a loyal minister." Why was Humphrey so keen to defend him? "I'm sure he pays personal tributes to you in all of them."

We looked at each other. And wondered. "Does he?" I asked. I'd never thought of checking. I asked my secretary to get me copies of Dudley's last six speeches. At once.

We waited in silence. And it occurred to me, once I started thinking about it, that Dudley also spends a considerable amount of time chatting up our backbenchers in the House of Commons tea room.

I mentioned this to Humphrey. He tried to reassure me. "But you asked the minister to take more trouble to communicate with the party in the House."

True enough. "But he has them to dinner parties as well."

"Oh." Humphrey looked glum. "Does he?"

"Yes, he does," I replied grimly. "This starts to get worrying."

There seemed no more to say. My secretary came in and said that Employment had phoned to let us know the we wouldn't be able to get copies of Dudley's speeches till later today or tomorrow. I'll read them as soon as I get them. Meanwhile, I won't worry about it. It's lucky I'm not paranoid. And I'm also fortunate to have someone like Humphrey as my Cabinet Secretary, someone who doesn't shrink from letting me know the truth, even if it is a little upsetting.

July 5th

I couldn't sleep. This business with Dudley is really worrying. I told Annie about it, and she said airily that she's sure there's nothing to worry about. What does *she* know?

Today, first thing, I went through copies of Dudley's six most recent speeches. As I suspected, and feared, there was nothing in them by way of a personal tribute to me. Well, virtually nothing.

I called Humphrey in for a confidential word. Like me, he could hardly believe that Dudley had said nothing suitable about me.

"Surely," asked Humphrey, evidently puzzled, "*surely* he must have talked about the new Prime Minister bringing a hope to Britain? *The Dawn of a New Age*. You know, that leaflet you told party headquarters to issue to all MPs and constituencies?"

I shook my head. "Not a word."

"That *is* odd."

"It's more than odd," I remarked. "It's suspicious. Very suspicious."

"Even so, Prime Minister, he surely isn't actively plotting against you?"

I wasn't so sure. "Isn't he?"

"Is he?"

"How do I know he's not?"

Thoughtfully, he stroked his chin. "You could always find out."

"Could I?"

"The Chief Whip would be bound to know."

Humphrey was right, of course. Why didn't I think of it? I told my secretary to send for the Chief Whip right away. And we were in luck. The Chief Whip was in his office at Number Twelve. We told him

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We will make the strategic arguments *For the Prime Minister's Eyes Only*, which certainly means that they will not be subject to expert scrutiny.

to drop everything and come right over.

Jeffrey Pearson, the Chief Whip, was in the Cabinet Room within ten minutes. He was evasive but during the meeting he made it perfectly clear that there is indeed some sort of leadership challenge, either led by Dudley or using Dudley as the figurehead. His problem is a lack of concrete evidence. So he can't make a move to stamp it out.

I was magnanimous. After all, one wants ambitious men in the Cabinet, one *needs* them. Just as long as they don't get *too* ambitious. . . .

I'm grateful to Humphrey for drawing my attention to it. He really is a good man and a loyal servant.

[Jeffrey Pearson's account of this is somewhat different. We reprint this extract from his memoirs.]

I had a sudden urgent call from Number Ten. Hacker wanted to see me right away.

Naturally I thought I'd done something to upset him. So it was with some caution that I entered the Cabinet Room. The morning sun shone brightly through the windows, creating patterns of intense light and deep shade.

Hacker sat in the shadows. "How are things going, Chief Whip?"

Naturally I was cautious, though I had nothing to hide. I told him things were going quite well, really, and asked why.

"You mean, you've noticed nothing?"

So I was supposed to have noticed something. What, I wondered, had I missed? I couldn't think of anything in particular, though it was a slightly difficult time with a little unrest on the back benches. Unless, that is, it's a very difficult time with lots of unrest on the back benches.

"Is there anything you haven't told me?" asked the Prime Minister.

I racked my brains furiously. He prompted me. "A plot? A leadership challenge?"

I hadn't heard a thing. But I couldn't say so, because Hacker obviously had suspicions. Perhaps he even had evidence. I played safe, avoided giving a direct answer, and told him that I had no real evidence of anything.

"But you have suspicions?"

I couldn't say I hadn't. . .and anyway, I always have suspicions of one sort or another. "It's my job to have suspicions," I replied carefully.

"Well, what are they?"

This was tricky. "Jim," I replied with my frank manner, "it would't be right for me to tell you all my suspicions, not unless or until there's something solid to go on."

"But you know who I'm talking about?"

I had no idea. "I think I can guess," I said.

Hacker remained in the shadows. I couldn't quite see his eyes. He heaved a sigh. "How far has it got?" he asked finally.

I was still searching for a clue as to the identity of the pretender. One thing I knew for sure—it hadn't got very far or I would certainly have known about it. At least, I think I certainly would.

He was waiting for reassurance. I gave it. "Only to a very early state. So far as I can tell." I was still being strictly honest.

"Do you think you ought to have a word with him?" the Prime Minister wanted to know. "Tell him I know what's going on? I don't want to lose him from the Cabinet. I just want him under control."

I didn't see how I could possibly have a word with him until I knew who he was. "Perhaps you should have a word with him yourself," I said.

He shook his head. "No. Not at this stage."

I waited.

"Who else is involved?"

I saw my chance. "Apart from. . . ."

The Prime Minister was getting irritable. "Apart from Dudley, obviously."

Dudley! Dudley? Incredible! Dudley!!

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"Oh, *apart* from Dudley, it's a bit early to say. After all, Prime Minister, there may not be anything to it."

The Prime Minister stood up. He stared at me over his reading glasses. He looked thin, tired, and drawn. This job is taking a toll on him, and he's only been at it less than a year. "Jeffrey, I'm not taking any risks," he said quietly.

I could see that he meant business. I left the Cabinet Room, and assigned all the Whips to make some enquiries. Top priority. After all, if there is a plot I need to know its full potential.

(Hacker's diary continues—Ed.)

July 11th

I am now convinced that a dirty little scheme has been hatched behind my back. It is a disloyal, ungrateful, and treacherous plot, and I will not tolerate it.

I spoke to the Chief Whip. He said that he had no real evidence but he had *suspicions*. He said that he would make enquiries! He refused to tell me about them till he had something solid to go on. I regard that as proof positive.

I discussed the matter with Humphrey today. He expressed surprise that Dudley is plotting against me. "I would have thought all your Cabinet were loyal." Sometimes I am amazed at how trusting and naive Humphrey reveals himself to be. Loyal? How few people realize what the word loyalty means when spoken by a Cabinet minister. It only means that his fear of losing his job is stronger than his hope of pinching mine.

Humphrey, a tower of strength as always, offered to help. I couldn't see how he could. But he produced some papers from a file on his lap. "Technically I shouldn't show you this."

"I don't see why not. I'm Prime Minster, aren't I?"

"Yes," he explained. "That's why I shouldn't be showing it to you. It's a Minister of Defense draft internal paper. Top Secret. The Defense Secretary hasn't seen it yet." He passed it over the desk. "But as you see, it casts grave doubts on the Employment Secretary's plan."

This was a paper I was keen to read. It is fascinating. Part One pointed out that many of the "valuable" army buildings that Dudley quoted cannot be sold. Some are under strict planning controls. Some don't conform to private-sector fire and safety regulations. It all showed that the cost of the move would be prohibitive.

Part Two showed that the move would create massive unemployment in the Home Counties and East Anglia, with far fewer new jobs created in the northeast than would be lost in the south.

And then, in Part Three, which I read in bed tonight, there are pages and pages of objections on grounds of military strategy.

Tomorrow I'll question Humphrey about this further.

July 13th

At a meeting with Humphrey first thing this morning I questioned him closely about the Ministry of Defense paper. "Is it quite honest and accurate?"

Humphrey was evasive. He said that everything is a matter of interpretation. And if we were to look at the conclusion of the report we would see that all of the objections to the scheme were known to the Employment Secretary before he produced his plan. He added one rather telling point: that the whole plan may not be completely unconnected with the fact that Dudley represents a Newcastle constituency.

This had not escaped me either.

"The public," I commented, "has a right to know this."

Humphrey shook his head. "It's a top secret document." I simply stared at him, and waited. "On the other hand," he continued, "the Service Chiefs are notorious for their indiscretion."

"Notorious," I agreed.

"It could well find its way into the hands of an irresponsible journalist."

"Could it?" I asked hopefully. "Or several irresponsible journalists?"

Humphrey felt that such an eventuality was not beyond the bounds of possiblity.

I made it quite clear, however, that I could not be a party to anything like that, even though it would at least give the public the true facts. Humphrey agreed wholeheartedly that I could not be party to such a leak.

We agreed that we would defer discussion of the plan until an unspecified future date and that meanwhile Sir Humphrey would attend to the plumbing.

After he left, Bernard Woolley, the First Secretary, who sometimes lacks subtlety, turned to me. "When's he going to leak it?" he asked.

I was shocked. "Did I ask for a leak?"

"Not in so many. . ." he hesitated. "No, Prime Minister, you didn't."

"Indeed not, Bernard," I replied stiffly. "I have never leaked. I occasionally give confidential briefings to the press. That is all."

July 18th

Everything went like clockwork. Two days ago a story appeared in several newspapers, attributed to various nonattributable sources, effectively torpedoing Dudley's plan. □

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TIDBITS AND OUTRAGES

AT LAST, A CURE FOR THE GREENHOUSE EFFECT
The Hammacher Schlemmer Company sells an $8900 outdoor air conditioning system to cool yards and patios.

DID HE SAY IT IN HIS BRIEFS?
An attorney who promised to appeal the conviction of his client, 2nd Lt. Naomi Haye, for committing adultery inside a missle silo, explained, "I will go with Naomi Haye as far as she desires to go."

BUT THEY DO TELL YOU STORIES ABOUT THEIR BMWS

SMOKEY AND THE BANDIT
A new book quotes a Forest Service official explaining that he needs only nine of the 17 people on his staff. "But I realized that a government employee who has a staff of only nine doesn't get paid as much as one who has a staff of 17," he said.

"YOUR HONOR, I'D LIKE TO CLEAR THE AIR..."
In Sonora, California, a defense attorney is appealing his client's conviction, charging that the prosecutor disrupted the trial when he "farted about 100 times. He even lifted his leg."

THE CHANCERY WAS IN MOTOWN
In Augusta, Georgia, James Brown's wife is seeking diplomatic immunity from traffic charges, citing a two-year-old declaration by a congressman that "James Brown is indeed our No. 1 ambassador."

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The Case Against Kids

When parents sacrifice their ideals in the name of their children, both suffer.

by Jason DeParle

My friend Henry's a great guy. He's got a cherub's face and a gift for empathy. He's generous with his time; in college he spent a night a week as a prison counselor. He's generous with his possessions, too, as I know from college days spent tooling around in his car. And though he's smart enough to have succeeded in any number of lucrative professions, he chose the ministry.

These days, my friend Henry is also a father. I know he approached that event with pride and awe and the occasional ministerial musing on the mystery of creation. But when he wrote about it for the "About Men" column of *The New York Times,* he stressed something else: money.

"I have chosen what amounts to a vow of poverty by choosing the Christian ministry," he worried, "but I don't see how I can expect my family to take a vow of poverty as well. My children will feel limited—perhaps even trapped—by this decision of mine. . . ." Realizing that his children won't have as much as they would if he practiced medicine or sold insurance, he began to "feel pretty slimy about it."

Slimy? About being a minister? This was no character from *Wall Street* talking, this was Hank. He'd been heading toward the ministry for as long as I'd known him. The fact that he was overcome with worries that his family would "feel its sacrifice and may not enjoy any of its rewards" raises questions for lots of parents: Is it selfish to pursue your chosen work when you have a family to support? Do parenting and principle mix?

Having no children, it's not a question I've had to face yet. My biggest financial worries have to do with things like record players and fishing trips, not hospital bills, day care, or tuition. Childbirth can become an occasion of wild hope, deepened reverence, new tenderness—these are unambiguously fine emotions, and the accompanying financial worries, the urge to protect, flow from the same wellspring. Having kids, for most people, is a fine thing to do.

But even those of us without kids can legitimately wonder whether parents don't sometimes use them as a cop-out, an excuse to retreat from commitment. Henry, happily, vowed in his column to "regain perspective" and has stayed with his work. But not all parents do.

At its most cynical level, the kids' defense can be used to justify a greediness that has a life of its own. The Wall Street Wizard may be applying the bulk of his hefty paycheck to a second Mercedes and a house in the Hamptons, but he can quiet his conscience and critics with these words: "I'm doing it for my kids."

But usually I'm-doing-it-for-my-kids takes a more earnest form. Many parents set aside the work they care about most for more lucrative pursuits with the

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sincere intention of helping their children. The high school English teacher joins a public relations firm, for his kids. The unhappy corporate manager sticks it out, for his kids. The GS-15 with a fantasy of opening a restaurant resists it, for his kids. Small business ideas get shunted aside, flights of fancy (large and small) deterred, and incomes maximized—"for the kids."

To be sure, children need a certain level of material support. But the people I'm talking about—the people who mostly are my friends—aren't facing questions of subsistence. They have college educations and they typically have spouses who work. Usually, they're puzzling over whether to make $30,000 in pursuit of something they care about, or $100,000 in something they care about less. Say they find themselves with two $25,000 incomes while doing the work they want; they'll still rank among the top fifth of American families. While most of the world is busy simply surviving, these are people fortunate enough to have choices. It's worth wondering whether too often they limit those choices in the name of their children.

Michael, Hope, and Janie from ABC's "thirtysomething."

The alternative—forgoing the more lucrative option for work that is more enjoyable, interesting, and significant—has several advantages. The first is purely selfish. The father who wants to join the foreign service will find greater satisfaction there than he will as an accountant. Or maybe he likes debits and credits, but wants to be his own boss; if so, he's likely to find greater satisfaction owning his own firm than in the bowels of Arthur Andersen. The challenge is to fill his professional life with work that's useful and enjoyable—to lead his life rather than letting it lead him.

Sure, not everybody has grand dreams about writing novels or starting businesses or helping the poor. Some would rather play basketball, but, being born too short, survey the available options and go to law school instead. Others, like Steven Jobs, can do useful work and still get rich. And some jobs that used to be regarded as low-paying and idealistic, like portions of the civil service and journalism, can now push the two-income family closer to $100,000.

But lots of gratifying and important work (like teaching, social work, nursing, and some forms of government service) offers only modest pay. And lots of people set aside what might be their second or third choice, for a ninth choice just for the money. Selling out has its costs. No one wants to face death-bed notions of what-I-might-have-done. And the country shouldn't be built around life with the high-paid blahs.

Nor should a family. The second advantage of a parent's committed life is the invaluable gift it can offer a child. Work does more than put food on the table; it communicates values. The used car my friend Henry may wind up driving while pursuing his work as a minister can set an example for his daughter. Perhaps the most precious thing a provider can provide is an indifference to whether the car is new or the coat says Calvin Klein. And what better time to care about making a difference in the world than the occasion of becoming a parent? What, after all, is parenthood if not some statement of faith in the future that children will inherit?

Not that work compromises aren't involved. They are, but they involve time more than money. What kids need most of all are love and attention, especially when they're young. These commodities are available at all income brackets.

For one instructive view of how responsible

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parenting gets portrayed, there's "thirtysomething," ABC's wildly successful look at what it means to be young, professional, and parental.

The show's main characters, Michael and Hope Steadman, have a baby. Michael and Hope have a house; Michael and Hope have a new car. Michael and best-friend Elliot (also a parent) have just started an advertising agency. A galaxy of unmarried pals revolves around Michael's and Hope's house, which serves as center stage for Sunday brunch, Scrabble games, and boy-girl gossip. A voguish crowd, these singles. While Michael brings home the bacon writing corny ad copy for diaper commercials, his pals include a free-lance photographer, an urban planner, and a professor of medieval literature with a flair for reciting Arthurian tales. (What, no cellist?) But for all the dash and dare of the singles' office hours, they lack Michael's and Hope's nurturing home life. A quiet, even self-deprecating, message gets voiced: Be like Michael and Hope.

Scurvy little spider

And what does that entail? The first episode begins with Michael at work, screaming about "having a little integrity." Some tempter named Teller is offering him $200,000 to undertake an ad campaign that requires a little no-one'll-ever-know plagiarism. "It's sleazy, Mr. Teller," Michael shouts. Slamming down the phone, he tells Teller the contract "would make me sick to my stomach and throw up."

But as the show progresses, baby worries mount. "What if she grows up ugly?" he muses to his wife. "What if she grows up poor?" Ugly rests with the genes, but poor he can control. With the firm facing bankruptcy, Michael grovels back to Teller, who patronizingly accepts his apology, saying, "I know you kids got principles."

The scene cuts to a vision of Hope rocking their daughter in the inviolable comfort of home, and we all know why Michael did it. "I sold out," he announces, back in his domestic refuge. A heart-to-heart ensues. (Hope: "I don't want you to compromise." Michael: "But your going back to work is a compromise, too.") The ending suggests that it's all for the best, with Hope serving up the bottom line: "We have a wonderful baby who we love so much and who needs us."

They manage to wring their hands over having "sold out"—the phrase is Michael's—enough to assure themselves of their sensitivity but not enough to change their lives. Back at the office, Michael's partner sums it up: "We've got two wives, three kids, four cars, two mortgages, and a payroll. And that's life, pal. You be the breadwinner now."

Life involves compromises, to be sure, but there's a hold-on-there quality to this sellout. Accept for the moment the dilemma on its own terms—a young father has to choose between bankruptcy and principle. (In fact, the financial choices that the Michaels of the world have to make seldom involve options as drastic as bankruptcy.) One can envision an endless succession of arguments to justify Michael's decision. Wouldn't it be indulgent of him not to put his family first? (That was the question facing my friend Henry.)

But what would have happened to the family if Michael turned down the contract? Michael and Hope both have college degrees—Hope's a Phi Beta Kappa—that have landed them well-paying jobs before. Their parents have lent them money and might do so again if needed. They could sell their house or new car, options they consider but quickly dismiss. Like their counterparts in real life, they would have landed on their feet. Little Janie would scarcely have faced a future of soup kitchens and homeless motels. Moveover, she would have been raised with a family legend that celebrated the value of a principled life.

It's hard to think about this scene without being reminded of a different cinematic hero who faced a similar quandry. In Frank Capra's 1946 sentimental classic, *It's a Wonderful Life*, it's Potter who plays the role of tempter and Jimmy Stewart who's cast as the tempted. Stewart's community savings and loan is imperiled, and Potter, Town Enemy Number One, is anxious to hurry it to its demise. The old misanthrope summons Stewart to his office where he attempts to ply him with a big salary and a vision of the good life. "You wouldn't mind living in the nicest house in town, buying your wife a lot of fine clothes, a couple of business trips to New York a year, maybe once in a while to Europe," Potter says. "You wouldn't mind that, would you?" Puffing one of Potter's expensive cigars, Stewart savors the delicious vision. Nice house. . .trip to Europe. . . snazzy clothes for the kids. . . .But as he begins to agree, his conscience rebels. He calls Potter a "scurvy little spider" and stalks off. Unlike Michael Steadman, he doesn't go crawling back. (Ironically, the "thirtysomething" production company, Bedford Falls, is named for the town where Stewart makes his stand.)

Admittedly, it's tough to live up to Frank Capra's standards; most of us are more Steadman than Jimmy Stewart. And the analogy is only partially apt. If anything, Stewart may have been too selfless in his service to his town, at a cost to his other aspirations.

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"thirtysomething's" Janie would scarcely have faced a future of soup kitchens and homeless motels. She would have been raised with a family legend that celebrated the value of a principled life.

But at another level, the contrast is an instructive one, and it points toward one of the ironic failings of American affluence—the ability of education and wealth to constrict freedom rather than expand it. Stewart, unlike the Steadmans, has no college degree to fall back on, no assurance of even minimal comfort in refusing to sell out. By contrast, Michael and Hope have lots of choices of how to live their lives. They have the ability to just say no to Teller at only modest personal expense. But instead, like a lot of us who share their social class and education, they feel imprisoned by it. Michael can walk away from his "integrity"—again, his word—easier than he can walk away from his house or car. Little Janie's not the real issue; Michael is.

Benetton is spiritual, experts say

How much do kids really cost? A 1984 Urban Institute study spent 100 pages tackling that question—with edifying chapter titles like "Choosing an Isoprop Measure"—and came up with figures that ranged from about $52,000 for a poor black child to $143,000 for a well-off white one, up to age 18. The point is there's no way to measure how much kids cost, only what parents spend. To a large extent (barring isolated incidents, like serious illness), kids cost what parents want them to, especially when they're young.

If a pre-schooler is donning a $145 Armani blazer, he's clearly going to cost more than his playmate whose parents shop at Sears. The explosion of preschool boutiques in the past few years ought to raise a few questions about what the upper middle class defines as necessities. Pre-schooler pants sell for $36 at the Georgetown Benetton's, but run only $3.99 at the Wisconsin Avenue Sears.

When the *Los Angeles Times* reported recently on the explosion of childfashion that's making natural fibers hot for tots, it found a "heartwarming, spiritual side. It's parents' desire to share with their kids the same high quality and style they demand for themselves, many experts say." Maybe "many experts" would say that "spiritual side" was what a New York mother had in mind when she bought a pair of $100 glittered sneakers for her four-year-old. "I'm trying to teach the right values," she told *Newsweek*, "to buy a few quality things." Next time you read one of those "Going Broke on $100,000 a Year" articles, check the labels in Junior's closet.

Assuming a sustenance level somewhere between Dickens and Dominick Dunne, there's only so much a child can eat and wear. Add in a few new bicycles, ballet lessons, a trip to Disneyland, and some weekends at the beach. These are still costs that a $50,000 family income can accommodate.

The two big ticket items that parents have to worry about most are housing and schools. (Medical care is sometimes a third, but families in this income bracket usually have good insurance from their employers.) These are important worries; few parents would enjoy the option of taking a $300-a-month room in an Adams-Morgan group house. Depending on what part of the country they live in, the $50,000 work-I-want-to-do family may have to make some choices and even sacrifices. They won't face poverty, by any means, but they will have fewer options than their MBA classmates. The point is that spending 30 years at work that lacks meaning is a sacrifice, too.

One solution is to avoid New York, San Francisco, Washington, and a few of the country's other highest-priced cities if possible. The $50,000 family won't do too well on Q Street in Georgetown, and it might

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even have problems buying into some of the nicer suburbs, like Montgomery County, Maryland, where the average home sold for $190,000 this spring. But a $50,000 income can house a family quite well in places like Orlando or Austin or Portland. Three-bedroom homes are still available in good neighborhoods of Jacksonville, Florida, for $80,000.

Of course, this isn't always possible; the work you want to do may put you in a city that's hard to afford. In a handful of cities, New York most of all, being there with a family may rule out some types of attractive but low-paying work. Still, there are options. The family that needs to be in D.C. can find affordable homes in parts of Arlington and Prince George's County. They're likely to have some combination of a longer commute, a smaller house, or a smaller yard, but kids can grow up just as well in Bowie as they can in Bethesda.

The second parental dilemma centers around education. Imagine how much freer middle-class professionals would feel to experiment with their lives and talents without tuition anxiety. The confusion between educational substance and appearance makes tuition a slippery topic. Educational worries can be born of the purest desire for a child to grow and blossom, but they can also be born of the same status anxiety that makes Benetton a growth stock. How many of those station wagons with the Country Day stickers are really advertising a love of physics?

In some cases, private schools may be crucial and the tuition woes unavoidable. There are lots of godawful and even dangerous public schools out there that I wouldn't want my child to face. Yes, a compromise in my life would be worth it to save that kind of crisis in theirs. My mother made precisely such a sacrifice when she increased her part-time secretarial job to full-time, in order to keep me from attending seventh grade in a Jacksonville public school that wasn't even accredited. It was an important decision; private school put me in a position to enter a good university, which put me in a position to find the kind of job I wanted after graduation. Education is clearly the commodity that most distinguishes my life from the lives of my parents, neither of whom attended college. It gives me choices they didn't have.

But for all the problems that have befallen public education, there are still some pretty good public schools out there, and most often they're concentrated in the places the $50,000 family can live—not just in Bethesda but in Bowie too. The public schools I attended through sixth grade in an integrated, working-class neighborhood of Bridgeport, Connecticut put me at no disadvantage when my parents' move to Florida landed me in private school.

Of course not every parent faces the cake-and-eat-it-too situation of good schools and free schools. But most $50,000 families can either live in neighborhoods with good schools or afford to send their kids to some type of private school. (My parents did it on considerably less than that, albeit with the advantage of having just one child.) The worst public schools tend to be in big cities where cheap and good parochial schools can be an option. It may not be Groton, but it won't be the ghetto.

(And imagine what improvements might come if more talented professionals did choose public schools and were willing to monitor school boards, fight incompetent teachers, and pay higher taxes for public education.)

Hot College

Then there's college. "Congratulations," says a recent article in *Baby Talk* magazine. "Your newborn has her mother's looks, her father's high energy, and a personality all her own! Well, have you started planning for her college education yet?" College anxiety hits "thirtysomething's" Michael before Janie has learned to walk. "Oh, it's so green here, so beautiful," he rhapsodizes in a return to his old campus. "I can't deprive her of this."

It is a fine desire to wish for your children the rewards—social, intellectual, and career-wise—of higher education. But Hot College mania has no few things in common with the Benetton boom. Readers of this magazine may remember the story of the woman whose resume listed that she had a son at Brown and a daughter at Princeton. *Her* resume.

Before Michael Steadman takes too many sleazy contracts to send his daughter to Princeton, there's something he should remember: Princeton and lots of other prestigious schools offer substantial amounts of financial aid. Can everyone attend, regardless of family income? No, and ironically it's often harder for the family with $50,000 to send their child than the one with $20,000. At times, families with two or three tuitions to pay and skimpy aid packages will have to forgo Princeton for Rutgers. And the Princeton aid student may find himself spending 20 hours a week wiping dishes while his classmates read Browning or chug beer. More troubling, he may come out with a heavy loan burden. (This is one reason why a long-term—say, 30-year—government loan program makes sense, to be repaid annually alongside income taxes.) Still, for many students, particularly the best, Hot Colleges can still be an option, regardless of their family's income.

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Perhaps the most precious thing a provider can provide is an indifference to whether the car is new or the coat says Calvin Klein.

Nor is a Hot College necessarily the best. Name a Hot English department from the early forties, where students could drink in the lectures of Robert Penn Warren, Robert Lowell, and Cleanth Brooks. Harvard? No, LSU. Where would a student have to go today to study economics with authorities Frank Levy and Mancur Olson? Answer: the University of Maryland. Want to study history with the leading biographer of Eisenhower and Nixon? Write Stephen Ambrose at the University of New Orleans.

The most loving thing a parent can do is help a child find the right school for his or her interests, regardless of the label. It might mean encouraging the child to spend a few years painting houses or wandering around in order to figure out what his or her interests are, rather than rushing off to a status-charged school (where lots of people are similarly screwing around at $15,000 a year). Most of us go to college too early anyway, often, in part at least, to please our parents. I did.

That's not to argue that the average education at Harvard is no better than the average education at LSU. Four years at a top liberal arts college can be a precious, even life-transforming, experience. My semi-hot college, Duke, offered lots of advantages that weren't offered to my friends at Florida State. In part the advantages came from classes and connections. In part it came from what I could learn from unusually talented and creative friends. Most important of all, perhaps, was the confidence that can come from being at a place that had sent people on to do wildly divergent and exciting things. More than anything, it expanded my appreciation of what was possible.

But confidence and imagination begin most of all at home—with parents. An inquisitive mind will find much to fill it at any number of universities, and an unsearching mind won't, no matter how high the tuition. For evidence of the poverty of imagination that can haunt even the nation's best schools, consider the scene at Yale several years ago, when a third of the graduating class sought jobs at First Boston. It seems like the greatest parental challenge isn't footing the tuition bill as much as it is helping children's minds and spirits define their lives in ways that fill them with meaning and purpose. And what better place for a parent to start than with the example of his or her own life?

Quigley's quirky quest

The world is full of people who have balanced their commitments to their families with work that they value and enjoy. The people I spoke to haven't stuck to lesser-paid work in order to make statements to their families about political commitment or artistic devotion. They have done it simply because they like it. But subsidiary benefits do flow: their work does communicate values to their kids and helps, in their minds, at least, make the world their kids will inherit a better place.

Patrick Welsh began teaching at T.C. Williams High School in Arlington, Virginia while in law school. The classroom was exciting. He enjoyed the work. "And I have the illusion that teaching is important," he said. Welsh's influence has extended beyond the classroom. Five years ago, when editors at *The Washington Post* went looking for a savvy teacher who could provide the city with a candid look at life inside a big city high school, they wound up with Welsh. His series of *Post* articles was later expanded into a book.

In the middle of this forsaken career as a lawyer, arrived Welsh's children—now aged five, seven, and

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16. Inevitably the thought arose: Would my kids be better off if I dropped my teaching job and dusted off that law degree? "I had those feelings—that it's okay to do this for yourself, but when you have children you wonder if you're screwing them over," he said. "You may not be able to give them things that the guy who works at Bell Labs can give them."

"But I've seen so many fucked-up rich kids it doesn't bother me anymore," he said. "And as a teacher, I can be a better parent, because I know what goes on in schools. I can keep a better eye on my children."

Bill Quigley is a New Orleans lawyer known for his controversial representation of penniless clients. After several young children suffered brain damage from lead-based paint in the city's housing projects, Quigley won a court order requiring the housing authority to clean them up. Representing the homeless, he won a suit that declared unconstitutional city statutes that made sleeping in public a crime. He has spent endless hours representing men on death row. It's all work that he enjoys and believes in—and little of it pays.

To balance his desire to pursue his cause-oriented practice and his need to support his family, Quigley works half-time for free and half for pay. It brings in $30,000 to $35,000 a year. "You have a lot of different feelings when you're a parent," he said. "You see the baby on one table and your wife on the other, and all your protective juices begin to flow. Everybody wants the best for their kids, but it depends what's best. If your definition of what's best includes working for the poor and underdog, you'll want to give your kids that."

Family commitments have made him cut down on the hours he spends working, especially at night and on weekends, but not on the type of work he does. He does it for himself, but at the same time it sends a message. When he drove by the jail one day, his nine-year-old son, Patrick, asked him if he'd ever helped anybody inside.

"I don't think you do your kids any favors by giving up your purpose in life, your dream," he said. "When they become teenagers they're going to ask what's the purpose, what's life all about. What are you going to say to them if you've given up everything that's hopeful and beautiful and idealistic?"

Any number of sad contrasts comes to mind, of friends whose parents had worked hard at essentially unhappy jobs that left them with lots to spend on their children but little to share with them. The father of one college friend had earned plenty as an accounting executive and was anxious to give it to her. New car for graduation? No thanks, she said, opting for climbing ropes instead. She worked two jobs for spending money her parents would have provided gladly, and the one thing she wanted more of was always difficult for her father to produce—time for them to spend hiking together.

Rocky Mountain high

Like most people, my ideas about parents are wrapped up in the joys and anguish of having them. Truth-in-advertising compels me to divulge that my father faced an important choice that made him weigh conflicting responsibilities as a parent. About the time I was turning seven, he was building a career as a salesman of commercial refrigeration. It paid well, more than he'd ever known as a child, particularly after my grandfather, a saloonkeeper, died when my father was 16, leaving him with four younger brothers and sisters to help. But it also required long trips, by car, up and down the east coast, away from his family. When his company urged him to take a promotion to national sales manager, meaning more travel and more time away, he quit.

He bought his uncle's venetian blind company—a one-man shop—and embarked on the financially risky route of entrepreneurship. He also spent a lot more time at home and became a Boy Scout leader. There was a financial cost to this: rather than take the $10,000 step up to the $35,000 position (in 1967 dollars) the refrigeration company offered, he stepped down to about $15,000, and the family income never again hit $25,000 until after I had left home in 1978.

There was no public principle involved (with the modest exception, perhaps, of the Boy Scouts); selling refrigeration is as socially useful as selling venetian blinds. But there were other principles: he felt the gratifications of independence, the challenge of running his own business, and the rewards of more family time—all at the cost of a lowered income. What's most pertinent is this: I never felt cheated by his decision to pursue less lucrative work.

If anything, it was something that brought us closer. By the time I was in high school, I was spending Saturdays and summer vacations making window shades with him. Of course, we didn't grow close because he made window shades; we grew close because he is an affectionate, devoted father—qualities that he could have retained in any number of more lucrative occupations. But I know, too, that many of my friends were awash in a sort of purposeless affluence of new cars and beach homes and club memberships, accompanied, at times, by a kind of look-how-much-I've-given-you parental resentment. It's a feeling, I'm sure, that will ring true for

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the graduates of many private schools. A running joke in my family was one friend's boast at another's tennis racket: "I've got 14 of those!"

I'm convinced, moreover, that the most important experience of my adolescence occurred not in spite of my family's limited finances but precisely because of them. It began when I was 13 and I answered a *Field and Stream* classified ad for a fly fishing trip in Montana. My father and I grew captivated by the outfitter's cassette-tape response, a promise of proud mountains, pristine waters, and plentiful trout. But it took a year-and-a-half of shade-making—on weekends and vacations for me, every day for my Dad—to save the money to pull it off. We kept a savings schedule and a map of the West taped to my bedroom door. Two summers later, our ten days of soggy sneakers in Rocky Mountain streams produced about two hundred cutthroat trout and something more enduring: a lesson in our ability to dream big dreams and make them come true.□

WHO'S WHO

General **Colin Powell** is clearly better than most of his predecessors as **Ronald Reagan**'s national security adviser. But considering who some of them were—**Richard Allen**, **William Clark**, **Robert McFarlane**, and **John Poindexter**—that is modest praise indeed. Two facts that may contribute to the praise remaining modest are (1) Powell is slated to be vice Chief of Staff of the Army next year, which means he is unlikely to question anything the Army wants, and (2) his two most influential deputies, **Peter Rodman** and **John Negroponte**, are both cautious bureaucrats, unlikely to do great things or express original views. On the other hand, the same caution will keep them from the spectacular error of an **Oliver North**. Negroponte, for example, recently forced out of the White House a boat-rocking ideologue named **Jose S. Sorzano**. . .The Republican vice-presidential possibility that Democratic insiders fear the most is **Nancy Kassebaum**, whose pleasant, common-sense manner, they worry, would solve Bush's problem with women without alienating male voters. . . .

Literary figures can inspire a coterie of enthusiasts, such as has certainly been the case with the Speaker of the House's latest book. Among **Jim Wright**'s most devoted fans, for example, are the Teamsters Union, **John C. White**, the political consultant, and **Leslie A. Berkowitz**, a lobbyist for a gas pipeline company, each of whom bought 1,000 copies of the book. . .

"I have the power," **Susan Estrich**, **Michael Dukakis**'s campaign manager recently told **Bella Stumbo** of the *Los Angeles Times*. Sensitive to rumors that **John Sasso**, the retired tape distributor, was still running the Dukakis campaign, Estrich said:

"I am in charge. I run it. I manage it. I decide where we're going, what we're going to do, where we will spend money, how much and on what. I decide what we're going to say, who should do what. I am in charge of deciding what, ultimately, we are going to do."

One more disclosure like that and Who's Who predicts that Michael Dukakis, who believes that the avoidance of gaffes is more crucial to victory than any attempt to electrify the voters, is certain to send Estrich back to her professorship at Harvard Law School. . . .

In—*White House*: Chief of Staff—**Kenneth M. Duberstein**; Assistant to the President for Communications—**Mari Maseng**; Special Assistant to the President for Legislative Affairs—**Mark Greenberg**; Special Assistant to the President and Deputy Director for Public Liaison—**Roger Bolton**; *Commerce*: Chief of Staff—**Donald Danner**; Undersecretary for U.S. Travel and Tourism—**Charles E. Cobb Jr.**; Assistant Secretary for Trade Development—**James P. Moore Jr.** *Defense*: Assistant Secretary for Financial Management, Department of the Army—**Ken Kramer**. *Justice*: Deputy Solicitor General—**David Shapiro**. *State*: Assistant Secretary for Administration—**Sheldon J. Krys**; Ambassador to Syria—**Edward Djerejian**; Ambassador to Israel—**William A. Brown**; Ambassador to Yugoslavia—**Warren Zimmermann**; Ambassador to Paraguay—**Timothy Towell**; Ambassador to Morocco—**Harry Bergold**. *Agencies and Commissions*: Administrator, General Services Administration—**John Alderson**; Acting Chairman, Commission on Civil Rights—**Murray Friedman**.

Out—*White House*: Chief of Staff—**Howard H. Baker, Jr.**; Assistant to the President for Communications and Planning—**Thomas C. Griscom**; Deputy Director for Public Affairs—**Joseph Rodota**; Special Assistant to the President and Deputy Director for Public Liaison—**Donald Danner**; Special Assistant to the President and Senior Director for Latin American Affairs, National Security Council—**Jose Sorzano**. *Commerce*: Assistant Secretary for Trade Development—**Charles E. Cobb Jr.** *Justice*: Assistant Attorney General—**Charles J. Cooper**; Deputy Solicitor General—**Louis R. Cohen**. *State*: Assistant Secretary for Administration—**Donald J. Bouchard**; Ambassador to Trinidad and Tobago—**Sheldon J. Krys**; Ambassador to Syria—**William L. Eagleton Jr.**; Ambassador to Israel—**Thomas R. Pickering**; Ambassador to Yugoslavia—**John Scanlan**; Ambassador to Paraguay—**Clyde Taylor**; Ambassador to Morocco—**Thomas Nassif**. *Agencies and Commissions*: Commissioner, Federal Energy Regulatory Commission—**Anthony Sousa**.

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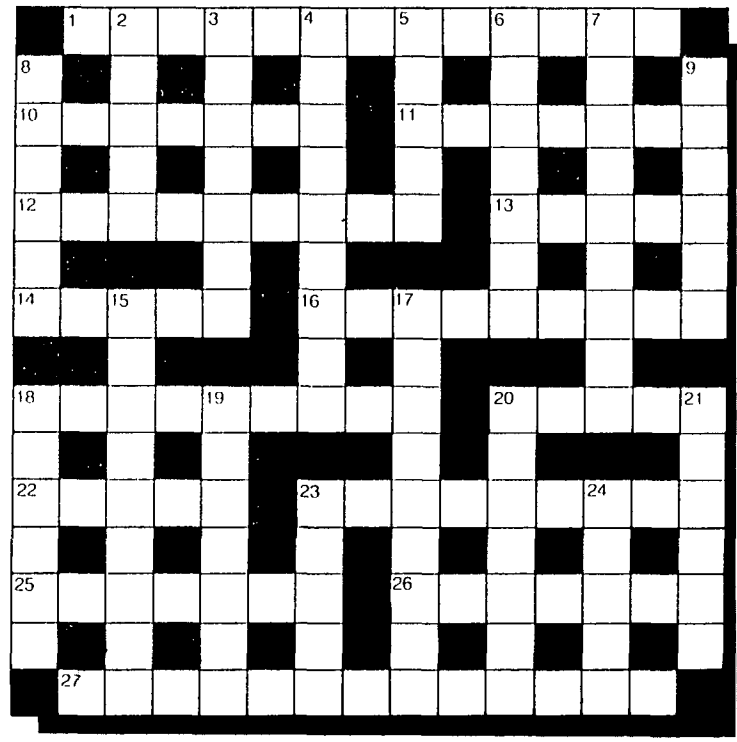
POLITICAL PUZZLE

by John Barclay

The numbers indicate the number of letters and words, e.g. (2,3) means a two-letter word followed by a three-letter word. Groups of letters, e.g. USA, are treated as one word.



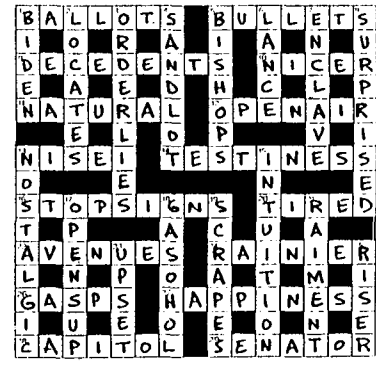
ACROSS

1. Hunting cry for Democrats? (4,3,6)
10. Persistent bid in mixed gain. (7)
11. Wobbly Red punt is good idea. (7)
12. Put down schedule arranged around oral cue. (9)
13. Muse and orate in a fashion. (5)
14. Casts spore around. (5)
16. Anne right about what was almost a disaster. (4,5)
18. Jail short man in Mexico with big hips jiggling. (5,4)
20. Equipment for Chinese Oyster fishers? (5)
22. Old man and huge American starting in Midwest. (5)
23. Trained freak dolt was spokesman. (6,3)
25. Coach American soldier in formation in Midwest. (7)
26. Airs lie about Arab opponent. (7)
27. Studio workers' cry for Republicans. (6,3,4)

DOWN

2. Put 51 in mixed color for well-known root. (5)
3. Hits the French in Tours. (7)
4. Nominator's privilege useful at bridge table. (4,5)
5. Man putting ratio back in bed. (5)
6. Scholar drives Ted nuts. (7)
7. Composed a live note aspect. (9)
8. Arness played Mideast leader. (6)
9. Dependable tune about Roosevelt. (6)
15. Loss of phosphorous allotment about four. (9)
17. Artfully fleshing a water creature. (5,4)
18. Rising Scots take in one group of philosophers. (6)
19. L. Walesa arranged for form of protection. (7)
20. Proposition a shimmering meteor around the end of March. (7)
21. Isthmus goodies rising around pie filling. (6)
23. Attachment amounts to nought without you. (5)
24. Strange Frenchman at first manufactured rake. (5)

Answers to last month's puzzle:



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The two faces of William Bennett

The Billy Pulpit

by Bruce Babbitt

William Bennett is a Janus-faced educator. At times we see and hear the passionate reformer visiting classrooms, teaching students, taking an ax to the icons of the education bureaucracy, pleading for "standards, discipline, basics, strong leadership and high expectations." But then we are subjected to another William Bennett, organ grinder for the Reagan political agenda, cranking out grandiose proclamations on the decline of modern civilizations, pseudo-historical musings on the intent of the founding fathers, and schemes to save the soul of public education by bringing churches into the schools.

In a rough way, this collection of speeches* from his tenure as education secretary is assembled in a sequence that presorts the wheat from the chaff. The first half of this book shows us Bennett the Good; the last half should have been left on the pamphlet table at the Republican National Committee.

The easiest thing to admire about William Bennett is his clarity and directness. No bureaucrat, this secretary. He roams the country grading schools, handing out praise for effective principals and teachers while castigating the shoddy and ineffective. He's not afraid to name names or to tangle with the education establishment. When was the last time we had a secretary out in the classroom teaching the story of Cincinnatus to third graders, telling the story of Horatius at the Bridge, and pursuing the meaning of Federalist No. 10 with high school students?

Bennett's core message is that our schools have failed their obligation to teach values. It is a familiar argument, one that flares up again and again in American history. The traditional view, which held sway in the nineteenth century, is that moral precepts are not to be examined or questioned. The teacher's job, acting *in loco parentis*, is to drill virtue into students by word and example. But how far should they go—where is the line between teaching and indoctrination? Philosophy aside, most parents, including me, agree with Bennett that we have drifted a bit too far from the lodestar of values, confusing traditional social studies (like history, geography, and civics) with soft social science (like sociology and psychology) and cluttering the classroom with too much moral relativism.

He writes: "Many have turned to a whole range of values, education theories, and practice where the goal is to guide children in developing their own values by discussing, dialogue, simulation, and even games." With Robert Coles, he asks, "Are students really better off with the theories of psychologists than the hard thoughts of Jeremiah and Jesus?" A little less John Dewey and a little more original sin is certainly in order, and we can thank the secretary for using his bully pulpit to move us in that direction.

But then Bennett begins raking his finger nails across the blackboard. His prescription for the moral anemia that afflicts our schools is not just civic virtue but a strong shot of religion in the classroom. He tells us why: "children who go to church are less likely to take drugs," and "religious belief reduces teenage pregnancy." Well, he's probably right, but

Bruce Babbitt is the former governor of Arizona.

**Our Country and Our Children: Improving America's Schools and Affirming the Common Culture.* William J. Bennett. *Simon & Schuster, $19.95.*

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there is still this nagging matter of the Constitution, specifically, the First Amendment. Bennett's rejoinder is to cut and paste phrases from the Founding Fathers that make it sound as if Thomas Jefferson, of all people, would have been ready to enter the classroom Bible in hand. One may be excused for wondering who will write the school prayers. Why can't Bennett distinguish the teaching of values from the teaching of religion? And why does he lack confidence in the staying power of civic virtue and natural law, available to guide Catholics, Jews, Protestants, and nonbelievers alike?

Linked to his crusade for moral values is Bennett's advocacy of the humanities. He argues for a curriculum straight from Alan Bloom and St. John's University: the classics are the core of education and western cultural roots, and history should be emphasized, especially American history.

Again, my sympathies are for more basics, with less social science and life-adjustment mumbo jumbo. But Bennett's argument for the humanities veers off towards the anti-intellectual when he argues that "our education is long on technique and short on tradition." He sounds like education should be a grabbag of facts, such as where the Amazon river rises. He gives only passing reference to science, and not once in the entire book does he even mention the word mathematics, much less the teaching of mathematics. If this is what he really means, I prefer the educational philosophy of Will Rogers, who once said "education is what's left over after you've forgotten the facts."

Crazy Joe and Alan Alda

The best speech in the book is Bennett's discussion of the school principal as the key to good morale and high achievement. It is a truism in athletics that it is the coach who produces winning seasons, and coaches who do not win lose their jobs. But for unfathomable reasons we have been reluctant to impose similar leadership expectations and accountability on school principals.

Bennett tells us what he learned about Marion Clisty, the no-nonsense principal at Artesia High in California who goes out into the neighborhoods to talk to parents, and who once set up her desk in the girl's restroom to restore order and decorum. And he has singlehandedly created a new folk hero, "Crazy Joe" Clark, who patrols the grounds of Patterson, New Jersey's East Side High with bull horn and baseball bat, cleaning out gangs and running off the dope dealers. Crazy Joe's fame is such that he will soon be in the movies, and a debate has heated up over whether he is really a reformer or just another Rambo. Whichever way it turns out, Bennett wins this one, for even Rambo is an improvement over some of what we have out there.

It's powerful stuff, and Bennett is right when he says, "If I were looking for a good principal, I'd cast my net as far and wide as I could. If I felt tied down by pointless state requirements for paper credentials, I'd complain, object, raise hell. . . I would be looking for. . .a role model, not a bureaucrat. . . ." Compare that to a recent six-point plan from the National Association of Secondary School Principals to upgrade the quality of our principals by requiring, among other things, a master's degree in "educational leadership." No thanks. I'd rather have William Bennett in my neighborhood.

When it comes to teachers, however, the best Bennett can do is to praise the good and damn the incompetent. Ask him about teacher salaries and he will respond, "there will never be enough to satisfy them." That response is simply an excuse to sit out the fight. In the last decade, no thanks to Bennett, we have managed to increase teacher salaries by a national average of 25 percent. It happened because many governors, like Dick Riley in South Carolina and Tom Kean in New Jersey, had the guts to persuade their citizens to ignore the antitax crusaders and make an investment in the future.

But the fact remains that there is a lot more to the teacher problem than salaries. Americans have never accorded teachers adequate respect and honor. Thirty years ago Richard Hofstadter showed us that throughout history we have harbored both high faith in public education and low esteem for teachers. In colonial times, teaching was held in such disregard that it was common for communities to hire indentured immigrants, fresh off the boat, to teach their children. And consider the lament of Franklin Phelps in 1870 that elementary schools "are in the hands of ignorant, unskilled teachers. The children are fed upon mere husks of knowledge." (Remarkably, after making that statement, Phelps went on to become president of the National Education Association.)

Salary checks aside, how do we attract better teachers? One possibility is to break down the guild-like isolation that characterizes the profession. Perhaps lateral entry would provide some fresh blood, infusing spirit into the classroom. But that means breaking down the credentialism that makes it so difficult to get into the classroom. We've all heard, for example, that Alan Alda was denied the opportunity to teach drama in a Connecticut school because he lacked the required hours of college English. An experiment started during my time as governor of Arizona recruited math and science

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graduates into a program where they could work one semester in the classroom and the balance of the year in a cooperating technology industry. In another direction, the Carnegie proposal to create a system of national teacher accreditation might break down state barriers to teacher mobility. Lamentably, this structural change, which is taking place routinely elsewhere in the American workplace, awaits the leadership of the next secretary.

All sizzle, no steak

In the end, this book speaks to me of welcome draughts of fresh air and no little lost opportunity. One must admire Bill Bennett for his use of the bully pulpit, his willingness to smash those icons, and his relentless crusades for values and quality, even as he drifts off into an occasional bout of religious crusading and anti-intellectualism.

But beyond this, there simply isn't any program, just a lot of sizzle and not much steak. Bennett's only specific suggestions for a federal leadership role are proposals for school prayer and tuition tax credits.

And so, as the Reagan administration ends, the issue remains: is there a federal role that extends beyond personal exhortation? Try as it may, the Congress has been unable to answer that question; its response is simply to churn out more demonstration grants for the latest fad from the last expert to testify within range of a television camera.

Federal leadership can come only from the president and his secretary. Since both presidential candidates have pledged to be education presidents, here are three suggestions to include in their acceptance speeches at the summer convention.

The singular opportunity for the reform of public education is already emerging in the 1988 presidential campaign, although not as an education issue. It is called day care, but is really early childhood education and, as such, presents the most interesting reform possibilities since Horace Mann. Day care in America is about where public education was in 1850, and we therefore have an opportunity to design a system virtually from scratch. If parental involvement is lacking in public schools, perhaps we can make a fresh start with parental involvement in day care that will be an example for the school system.

A voucher system would make sense for day care for the very reasons it would be destructive to the public schools. Public schools are the shared experience that brings us together in a pluralistic society, and vouchers should not be used to break up the system. Day care, in contrast, is a developmental bridge that leads from the nuclear family toward the formal educational experience. We should therefore let a hundred institutional flowers bloom, including family day care, proprietary programs, school day care, neighborhood cooperatives, and church programs. Vouchers, scaled to income, are the way to do just that.

Many of these concepts of early childhood were pioneered back in Head Start in the days of the War on Poverty. Twenty-five years later, the intensive longitudinal studies of Head Start children show that the benefits endure; this is one case where the roots of a new idea can be found in an old and neglected program. A child's first years are too precious to see wasted in some kind of 9-to-5 steerage. Day care should mean getting ahead.

Another big task for the national government is to provide all parents in the country with the facts upon which to judge their school and hold the teachers and administrators accountable. The way to do so is to implement a national system that uses testing to compare not individual students but individual schools. For years, state and local education administrators have been part of a tacit conspiracy to block the development of test-based standards by which your neighborhood school can be compared with every other school in the country.

Recently, the resistance has begun to crack, and a few states have started to develop honest comparative standards. At the national level, a program called the National Assessment of Education Progress has begun with the encouragement, if not leadership, of William Bennett and has done some promising comparative work. But only the president has the clout to empower parents by leading them in a campaign to get the job done.

Finally, there is the troublesome question of what to do about schools that are locked in a downward spiral of decline, seemingly beyond the reach of conventional reform methods. The National Governors Association has proposed the hostile takeover of such schools by state governments. Consequently, within the past few weeks, state officials in New Jersey have moved to take over the failing Jersey City school system. It is an important experiment because there comes a time when incremental change simply isn't enough. What about expanding the concept to encourage an occasional friendly takeover by the Department of Education or by universities interested in rehabilitating public schools? Perhaps we could bring Bennett back for a limited assignment to do a takeover of a dozen public schools, giving him a chance to test his management and motivation theories.

Meanwhile, is it too much to ask the presidential candidates to move beyond rhetoric to address these large national issues? There is still time to ask.□

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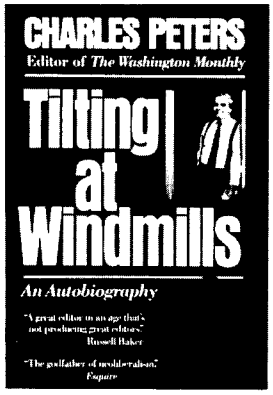

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There's a way to cure Wall Street of the trading habit

Arbitrageurs Anonymous

by John Rothchild

Warren Buffett's famous proposal, in case you missed it, is that the government slap a 100 percent tax on all capital gains from stocks, options, or futures that the seller has owned for less than one year. This is a sin tax, not intended to raise a single penny in revenue. The idea is to discourage a socially destructive addiction: the Wall Street Trading Habit.

We've tried sin taxes on cigarettes and liquor and neither has stopped people from smoking and drinking, but taxing profits 100 percent is almost guaranteed to stop people from short-term trading. Short-term investors—which according to published reports is nine investors out of ten these days—admittedly are a gung-ho lot, but it's hard to imagine any who are gung-ho enough to continue buying and selling *pro bono*.

Buffett's turnover tax has gotten a wider and more enthusiastic audience than it might have were it you or me or even David Stockman proposing it. Investors of all shapes and sizes listen to Buffett not simply because his words have made them wiser but because his actions to date have made so many so much richer. Had you invested just $2,000 in Mr. Buffett's company, Berkshire Hathaway (BKHT), back in the early 1960s you would have made 571 times your money by now. The original $2,000 would be worth $1.142 million. (On the other hand, Mr. Buffett himself once invested $58,000 in *The Washington Monthly*, proving that he's not infallible.)

If you're not already convinced that short-term trading is either (a) destructive, or (b) worth stopping, you will be after you read Louis Lowenstein's book*. The jacket blurb identifies him as a finance professor and former merger and acquisitions lawyer, but obviously he doesn't want to be remembered that way any more than Paul wanted to be remembered as a fisherman. He's the first convert to Buffett's cause to break ranks with the trading establishment and to write down a chunk of startling gospel. (Actually, Lowenstein has his own cause, shareholder democracy, but he's much less persuasive about that than he is about the evils of short-term trading.)

The trading habit has become more compulsive since the 1960s, when the annual turnover rate for stocks was 12 percent. Now it's 87 percent. In the late 1950s on a busy day in the New York Stock Exchange, three million shares changed hands. Today, three million shares are traded every ten minutes.

We're rapidly approaching 100 percent turnover, when every share in the country, on average, will be traded once a year, and some obviously will

John Rothchild is a contributing editor of The Washington Monthly.

**What's Wrong With Wall Street? Short-Term Gain and the Absentee Shareholder.* Louis Lowenstein. *Addison-Wesley, $17.95.*

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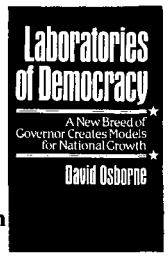

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change hands much more often. That's $3 trillion worth of stocks shunted from one portfolio to another, with the result, as Lowenstein points out, that "at the end of the year, the institutions as a group own roughly the same stocks they did in the beginning." It's gotten to the point that a ten-year Treasury bond normally is owned for only 20 days!

It's not mom and pop doing all this trading. It's the prudent portfolio managers they "hired" to run the mutual funds plus the pension managers who invest the corporate pension money who've got the Wall Street trading habit. Of course, it's not the managers' fault entirely. Ultimately, the people to whom this money belongs demand that their quarterly returns are equal to everybody else's quarterly returns, and the portfolio manager who doesn't please them soon finds himself out of a job.

So far we've been talking about stocks and bonds, which are supposedly the long-term investments. For the short-term end, which is to say something you've owned between coffee and dessert, there's futures and options. Buyers and sellers of stock index futures bet $26 billion a day: $13 billion up and $13 billion down.

A stock index future is just like a pork belly future, only instead of being a commitment to buy pork, it's a commitment to buy a "basket" of stocks.

The Democratic Myth
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Maurice Rotstein

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Between these futures, plus the options on stocks, the options on stock indexes, and the options on the futures, you've got enough frantic trading to equal the GNP of respectable nations. Even the supporters of the trading habit admit that only 20 percent of it has any use at all, meaning that 80 percent of it is nothing more than pari-mutuel wagering.

So what's wrong with a little gambling? Hostile takeovers, ill-conceived mergers, and even the Crash of October are all side-effects of the trading habit—or at least Lowenstein makes a convincing case of it.

High-priced toads

Let's start with the takeovers, the mergers, and the acquisitions. It's no accident that we're seeing more of these in the 1980s than in any previous decade. The reason it's so easy to take over a company today is that billions of loose shares have fallen into the hands of the short-term traders who are only too glad to deal them for a short-term advantage.

In the old days, when people invested in companies and not The Market, there were sizable numbers of shares held by founding families, believers in the enterprise, widows, orphans, and prudent long-termers. Millions of shares kept in bank vaults and safety deposit boxes simply were never put on the trading block, thus making it impossible for outsiders even to threaten to buy up 51 percent of a given company. With so many shares unavailable, how could they ever mount a decent corporate raid?

In recent decades, as the handling of stocks has been turned over to professionals, an increasingly greater percentage of shares has been coaxed out of safety deposit boxes and into the portfolios of big institutions. Today, these institutions control 70 percent of the shares of most major companies. Thus, the fates of such companies is now influenced by a succession of skittish and desperate portfolio managers who willingly sell out their interest in a company on the next up-tick to gain a momentary advantage over their competitors. (I've wondered how the companies even keep up with where to send the annual reports.) Many of the mammoth funds buy and sell stocks wholesale, to "index" their portfolios, without a thought as to the characteristics of the individual issue. The large pools of shares, even a majority of shares, are immediately accessible to the latest bidder. With so many shares up for grabs, it's easy to see how Carl Icahn makes a living.

In the recent case of Gillette, it never would have been possible for Ronald Perelman of Revlon to launch a hostile takeover attempt, nor for Coniston Partners to continue to pimp for a buyer, without

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the constant availability of millions of Gillette shares that a decade ago would not have been for sale. Not that Gillette has done such a great job on its own, but this sort of preoccupation with immediate gains and losses and with fending off suitors puts pressure on companies to favor profitable short-term schemes over intelligent long-term plans.

It's often assumed that takeovers, mergers, and acquisitions scare bad corporate managers and force complacent companies to perform better. This book provides evidence that recent take-over targets are performing no worse than the companies that worked to acquire them—except that now they are more heavily indebted thanks to the acquirers.

Most of this data comes from a study by Lowenstein and Edward S. Herman of the Wharton School of 56 corporations that were the objects of hostile takeovers between 1975 and 1983. The results show that the target companies were making normal profits (returns on equity) before they were attacked and therefore could not be expected to do much better under new management. "It's like the fabled story that Buffett tells of the toads waiting to be turned into princes by princesses with magic kisses," Lowenstein writes. "If these bidders are not bona fide princesses, we are left with some very high-priced toads."

Mergers and acquisitions has become a $180 billion a year business in which companies are routinely sold at 80 percent more than they are actually worth. The ultimate ramifications are as yet unclear, but there's no lack of hints of troubles to come:

"The new Allied Stores Corporation was essentially the same company but with a hollowed out capital structure," says Lowenstein. "The buyer had not only paid 25 times Allied's earning in its last fiscal year but had borrowed almost all of the purchase price from banks and an affiliate of First Boston Corp., its investment advisers. Campeau's own cash contribution did not cover even the financing fees and merger expenses. Allied's total debt jumped to $3.8 billion."

As to the Crash of October, so far the blame has been placed on either: (1) computerized arbitrage between stocks and futures, or (2) greed. Greed is always a welcome explanation for Wall Street's disasters, because nothing can be done about it. (Ironically, every time the market falls, investors are told to ponder their greed, but when the market goes up, giving them actual cause to feel greedy, they never think of it.) No wonder the movie *Wall Street* was a hit among professionals: greed once again was the villain, with the Crash of course serving as punishment, and now expiated by their losses, all the traders can happily go back to trading.

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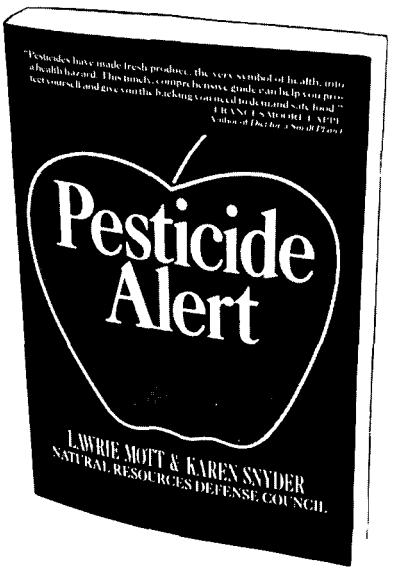

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But neither greed nor arbitrage was the actual culprit in the Crash, according to Lowenstein, whose findings resemble those of the Brady Commission report. In fact, he argues that program traders, who buy and sell baskets of stocks against stock futures, could not possibly have been doing much trading on that dreadful October 19 because nobody knew what the prices were. The prices were changing too quickly and by midday the machines were beseiged by sell orders. Meanwhile, a lot of the panic selling was being done by the big fund managers. On a day like this no self-respecting portfolio manager would want to be caught underperforming other portfolio managers, so selling begat more selling.

The fact that these same portfolio managers had "insured" up to $100 billion worth of stocks in the futures market may have been the single most important contribution to the calamity. Apparently the protection plan involved the automatic selling of stock index futures (which means making money when the market goes down) along with the selling of actual stocks, a process that, once set in motion, threatened to take stock prices to zero. Ironically, the portfolio "insurance" made the market much riskier.

The idea that the trading habit is harmful and that as long as it persists we'll have other Black Mondays when desperate sellers overwhelm the buyers apparently hasn't occurred to the regulators or to the powers on Wall Street. Eight months after the crash, the 200-million share day still is regarded not only as normal but also as a sign of financial health. Just last night, I heard some Wall Street expert on network television tell the nation that the recent string of 100-million share days was an ominous symptom of a sick market.

Happy hour

This isn't the first decade in American history in which investors have turned into frantic traders. The last time there was a turnover rate in stocks equal to the current turnover rate was—you guessed it—1929. In that era, too, investors were more enamored of the market itself than of the underlying businesses. Basic values were so ignored that millions bought shares in the famous holding companies of utilities magnate Samuel Insull, even though any fourth grader could have figured out that his companies would collapse. By the late 1920s, the business of America couldn't support its high-priced stocks.

Today, can the business of America support its high-priced trading habit? Lowenstein estimates that we now spend between $25 and $30 billion a year just on trading shares (plus their attendant futures and options). The portfolio insurance alone eats up between 2½ and 4 percent of a fund's annual resources. Institutions pay lower commissions than they used to, but the savings are more often offset by the volume. The same thing happens at happy hour at the neighborhood bar.

Meanwhile, if you add up all the prices of the stocks in the S & P 500 and you add up all the earnings of the companies to which these stocks belong the average return on investment is only 6 percent. Some years it's less, some years it's more, depending on what the stock market does and what the economy does. But as it stands today, trading costs eat up 20 percent of those earnings.

These are the numbers we can calculate. Who knows about the social costs, the ultimate waste of sending the best and the brightest to Wall Street, where they spend the rest of their lives studying whether stock prices are higher on Mondays, which is as useless as betting on Three Card Monte out on the street. Actually, it's worse than betting on Three Card Monte, which doesn't really hurt anybody but the immediate players. Half the graduates of our business schools now end up at firms like First Boston, working on mergers and acquisitions, and the result, apparently, is weaker companies. That hurts everybody.

If Buffett's tax were adopted all this would change overnight. Think of the relief of the portfolio manager who no longer has to worry about quarterly performance. Once again, he'd have time to think about long-term values beyond 20 days. Think of the relief of the corporate boards of directors if the available pool of shares for sale dried up on the Ichans and the Pickenses. Think of the useful ideas that might come out of the minds of college graduates, once liberated from fatuous dealmaking and useless prognosticating of ups and downs.

Forgive Lowenstein that beyond the end of short-term trading he sees a new shareholder democracy, in which millions of shareholders begin to participate in the affairs of Kellogg, AT&T, or IBM the way they participate in the Republican and Democratic parties. Forgive him that he glorifies some earlier and dubious halcyon age when bankers like J.P. Morgan stood out as financial role models—the same J.P. Morgan that created U.S. Steel out of watered stock. Forgive him that he writes like a lawyer and a bureaucrat. Congress ought to read this book, and then pass the turnover tax.

The result would be an immediate end to this second terrible addiction that wastes thousands of lives and billions in assets and threatens to destroy our very economic system. Say no to trading. □

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POLITICAL BOOKNOTES

The Man Who Invented Saturday Morning and Other Adventures in American Enterprise. David Owen. *Villard Books, $16.95.* When I was a business reporter in the Midwest, I once came across a food company whose earnings were being depressed by its struggling new soft drink. The company's beverage showed a picture of Fred Flintstone and was called Yabba Dabba Dew. I always wondered if someone's career was stunted, or if a cloud of ignominy settled over some hapless young product manager, who was forever stigmatized as the guy who went down with Yabba Dabba Dew.

I was reminded of my musings when reading David Owen's collection of humorous essays, which originally appeared in *Harper's* and *The Atlantic.* Owen writes about curious backwaters of American business, such as a company in Buffalo, New York that makes high-tech frozen foods ("The Soul of a New Dessert") or a museum of failed products that exhibits Gimme Cucumber hair conditioner, Mister Meatloaf, and AfroKola, The Soul Drink (alas, no mention of Yabba Dabba Dew). The book's title essay concerns a morning cartoon show. Playing the role of a stranger in a strange land, Owen examines these enterprises and also provides first-person accounts of a Beatles memorabilia tour, a conference for Amway-like pyramid selling networks, and a meeting in St. Louis attended by people who plan meetings.

Owen makes no pretense to being a business reporter; while trying to explain the economics of the pyramid schemes he says, "At this point it begins to get a little confusing and, in truth, I don't understand how it works." He has a great eye for absurd detail and a deft touch with funny names and quotes. A lot of this book's humor sounds like "Late Night With David Letterman"—which is not surprising, since many of Letterman's gag writers are, like Owen, former staffers of *The Harvard Lampoon.* Like Letterman, Owen dishes out plenty of mock-serious commentary: "Clarence Birdseye's estimable achievements notwithstanding, the early history of frozen food was not an unbroken chain of triumphs... centuries flew by and human civilization advanced in ways far too numerous to describe in a single sentence, 'frozen foods technology improved.' " All that is missing is a musical riff from Paul Shaffer and the "Late Night" band.

Owen's stories make you laugh, but the aftertaste is often one of condescension. Working stiffs are devoting their futile little lives to futile little jobs, like running a Fresh 'n Frosty machine. In Owen's hands, their foibles become highly amusing for the upscale readers of magazines like *Harper's* and *The Atlantic.* "All in all, Rich Products Corporation struck me as a fun place to work," Owen says of a frozen-foods company, but his claim is unconvincing. The message from these essays is that Owen is exceedingly grateful to have escaped his hometown of Kansas City, to have graduated from Harvard, and to be a credentialed member of the East Coast witty writers guild. There is an echo in his work of another clever midwestern boy who made it big among the New York-Washington intelligentsia—Michael Kinsley, Owen's former editor at *Harper's,* who is thanked in the book's acknowledgements.

When he exercises a little restraint and detachment, Owen can be both funny and much more interesting. The two best essays in the book contain his descriptions of entrepreneurs—Chester Carlso, who invented Xerography, and Charles Lazarus, who founded Toys-R-Us. Here Owen writes with compassion, even admiration. There's also an excellent chapter on trade magazines like *Hardware Age* and *Turkey World.* Owen's humor here is gentler, warmer, and more entertaining—possibly because Owen himself was once an intern with *Milling & Banking News.* "Trade and professional magazines make some of the most esoteric reading in the world," Owen writes. "They are the forum where American business talks to itself. Flipping through them is like

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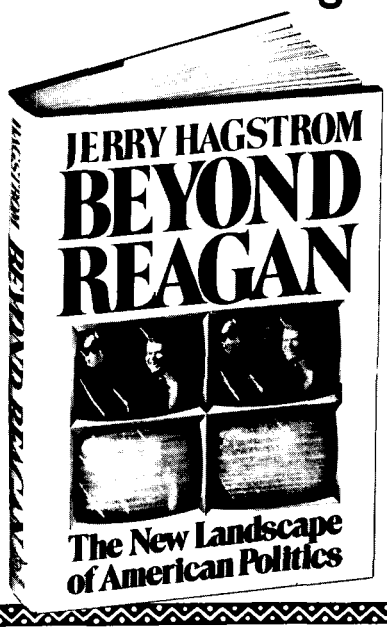
—Alex Raksin, *Los Angeles Times Book Review*



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eavesdropping on private conversations."

The better essays also contain more about the subject matter and less about Owen, who is not as interesting as the businesses he writes about. For example, Owen goes on at length about his travels in a van that monitors satellite TV signals: "Well, Doug and I had a beer and Tim some scotch. Then I had some bourbon and Doug had another beer and Tim had some more scotch. . . .Then we watched some sort of helicopter show." Occasionally his personal interventions into the stories are funny, but more frequently they are annoying distractions.

Maybe it's time for Owen to take on larger subjects, to work with a bigger canvas. Instead of writing about oddly named products and eccentric Beatles devotees, it would be great to read an account from Owen at ringside describing a titanic corporate takeover battle, a frenzy at the Tokyo Stock Exchange, or the greed of a plutocratic investment banker. He has already written a book attacking standardized educational testing; here's hoping Owen finds other large, deserving targets for his stylish writing and potent sarcasm.

—David Graulich

The Soft War: The Uses and Abuses of U.S. Economic Aid in Central America. Tom Barry, Deb Preusch. *Grove Press, $18.95.* While U.S. military aid to Central America makes headlines, there is little controversy about U.S. economic aid. Aid is good, says conventional liberal wisdom. Not so fast, say Barry and Preusch: not only does U.S. aid not help the poor, it strengthens the very sectors of society that block development. They argue that Central America would be better off without it.

Take Low Intensity Conflict, the Reagan administration's policy to deal with left-wing guerrillas, which combines military action with massive development programs to win the proverbial hearts and minds. It may be low intensity from the Pentagon's point of view; in Central America it seems awfully high intensity. In Costa Rica and Honduras, economic aid buys government toleration of the contras. Development is just one more part of the military campaign; politics has become the continuation of war by other means. Hence the Agency for International Development (AID) builds roads eight kilometers from the Nicaraguan border in contra-controlled northern Costa Rica, rebuilds bridges almost as fast as the Salvadoran guerrillas can blow them up, and sets up model villages in the Guatemalan highlands where that country's guerrillas find their support.

Where AID used to at least talk about helping peasants get land to grow their own food, it now encourages the opposite: large, privately owned plantations for efficiency in growing strawberries or snow peas for export. The problem is that while such trickle-down policies might work in a country where the wealthy feel a sense of social obligation and a responsibility to build and invest, this is not a description of Central America. Less than 3 percent of the citizens of El Salvador pay taxes. I went to a Chamber of Commerce meeting in San Salvador where the government presented a plan to win support in war zones by providing electricity and hospitals. Chamber members attacked it as "the road to socialism."

The United States has always been taken in by anyone with the wit to say, as Anastasio Somoza did in 1979, "My ideals are basically the ideals the average North American has, and Nicaragua has similar interests to the United States." That he said it in English polished at West Point was even better. The rich in Latin America speak English and play golf and drink Bloody Marys. We feel close to them and think they are like us, even when they are the people who ensure that Latin America is nothing like the United States. One of the greatest obstacles to development in Latin America is that the rich, the people who can help their countries grow, take their money to Miami at the first sign that growth might help the poor. The life of the poor will not change while the United States—the only actor to whom the rich might listen—continues to reward such blackmail.

—Tina Rosenberg

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The Darker Proof: Stories from a Crisis. Edmund White, Adam Mars-Jones. *Plume, $7.95.* This book makes so much of the policy debate on AIDS sound like shameful squabbling. As White and Mars-Jones shape it, the greatest challenge posed by the AIDS crisis is the spiritual one: What sustains the soul that is bereft of family, enduring slow death? The gay male AIDS sufferer speaks through these seven stories with the voice of the outcast, full of pain and yearning but also with courage and generosity. While the laboratory researches a cure for the body's illness, art seeks a salve for the mind's.

Although the malignant acronym appears only once in this entire collection, it is the menacing reality behind every page. The authors present the casualties like doctors pleading for an end to war. They show us how the epidemic is also damaging the healthy and how the daily horror of AIDS is scarring the witnesses. It is harder to bury the dead when life seems mocked by so much injustice. Gay culture prizes youthfulness; AIDS destroys youth in a particularly malicious way, leaving the living with booby traps of bitterness and rage. In Mars-Jones's "An Executor," the passing of someone young leaves an afterimage—a wardrobe of sexually implicit leather—that is both a rebuke of the owner's past and an emblem of his beautifully human contradictions. A volunteer AIDS "buddy," sent to cook and hug and, now, to clean up, is left to choose how to dispose of it.

One of the most painful aspects of AIDS is the atonement it often begs. White has alternated between celebrating gay culture and examining the problems of gay identity. In "Palace Days," youth is slipping away from the president of a gay travel agency for whom the limitless carnality of the seventies had once been a way of making a living. Now his friends are dying and he wants to atone for a past that feels more and more like an accusation. He falls in love, pledges fidelity, and mounts a siege against fears that he is a fraud. It is in this heroic struggle, not just against despair but for loving and being loved, that White finds the greatest dignity of his characters, and it is where *The Darker Proof* achieves its most moving conclusions.

—*Joe Arena*

Almost Golden: Jessica Savitch and the Selling of Television News. Gwenda Blair. *Simon and Schuster, $18.95.* Yes, they're hyping the hell out of it with movie deals and splashy spreads. Yes, there are details about the haircuts of Jessica Savitch's boyfriends that we could do without. Yes, Gwenda Blair is picking on a decidedly minor cultural figure who can't respond. But this book is still worth reading, mostly for the devilish pleasure that is derived from the misery of others, particularly (and aptly in this case) when bad things happen to the bitch in the office. Am I arguing that anyone's happy the anchor woman died in that freakish car wreck? No. But the truth is that Blair could not have written this if Savitch were still alive. (Nor, for that matter, could Nicholas von Hoffman have written about Roy Cohn or Gerald Clarke about Truman Capote.) Combine freedom from libel suits and the public's lurid appetites and you have a hardy literary tradition: cannibalizing the dead.

Blair's larger point—that the TV industry (and NBC in particular) set Savitch up for a fall—doesn't quite work. It has the feel of a theme concocted to lend gravity to what is essentially luscious gossip. The most unsettling is that Savitch's second husband hung himself with the leash of her beloved dog Chewy. Savitch also insisted on all the perks granted network "talent"—chartered planes, personal staff, and getting her way on details like the temperature on the set. Savitch liked it so cold that set technicians wore their overcoats.

Working in television can indeed bring out the worst in people. If you go in a quarter jerk, you may come out a full jerk. But the business did not make her a drug addict. She could have had the same news training as a male correspondent, not been sexploited by local TV news, not been promoted by the network before she was ready—and ended up exactly the

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same. We'll never know for sure. The book succeeds more as simply another good yarn about how sad and lonely life can be for the rich and famous, thereby making it more bearable for the rest of us.

—*Jonathan Alter*

The Third Century: America's Renaissance in the Asian Era. Joel Kotkin, Yoriko Kishimoto. *Crown, $19.95.* Bored by Lee Iacocca's latest round of Japan-bashing? Tired of Allan Bloom's efforts to get you to read the classics and take a morning pledge of allegiance to Europe? Had enough of Paul Kennedy's theories of inexorable historic decline? Fed up with Robert Reich's and George Gilder's attacks on big business—albeit from diametrically opposite perspectives? Confused by the macroeconomists' indecision about whether Reaganomics was something new (that either worked or didn't), or just Keynesian deficit spending in disguise?

If you answer "yes" to some or all of these questions, I heartily recommend Joel Kotkin and Yoriko Kishimoto's *The Third Century.* Kotkin and Kishimoto do not carry the academic credentials of Kennedy or Bloom; nor do they have the reknown of Iacocca. But Kotkin, *Inc.*'s West Coast editor, and Kishimoto, a management consultant, have written an original and sweeping treatise on American economic and social alternatives.

Their thesis is startlingly optimistic: the American economy cannot only catch up with its competitors, it can overtake them. According to the authors, Europe is stuck with its stodgy system of special subsidies and slack unions while Japan is awash in xenophobia and short on risk takers. A new American age could be dawning if we create firms that combine the best entreprenuerial behavior (and not Fortune 500 behavior) with Asian approaches to cooperation in the workplace.

Entrepreneurial behavior means the creativity, flexibility, and daring that are the essence of the American character at its best. To Kotkin and Kishimoto it means as well the humanity that is also a part of that character but is too often ignored by conservatives like George Gilder.

Kotkin has previously authored numerous analyses of midsize and smaller American manufacturing firms. His original research demonstrates that manufacturing is on the mend in this country, thanks mainly to vast new outpourings by the smaller firms—high-tech and low. *The Third Century* carefully documents the surge of smaller-scale manufacturing in the L.A. Basin, which is now *the* manufacturing center of the U.S.; the role of midsize and smaller firms in revitalizing even our oldest industries (e.g., steel, other metals, and forest products); and the central role played by the newer concerns in the struggle for global high-tech prominence. Compaq, which took on IBM at the zenith of that firm's dominance of the PC market and then proceeded to race to $1 billion in sales faster than had any company in U.S. business history, is a typical Kotkin and Kishimoto favorite. "The small and mid-size firms now represent the most dynamic force in the United States economy," the authors assert in a well-argued section of the book appropriately titled "The End of the Era of Galbraith."

Kotkin and Kishimoto lambast Europe for targeting industries for financial assistance and for its singular failure to generate extensive entrepreneurship, especially in the increasingly significant high-tech sector. The Japanese, the authors note, call Europe the "tribes of the setting sun." The book's unmistakable message is that we should too.

The authors begin with a statistical review. For instance, from 1959 to 1976, U.S. unemployment ran 50 percent above that of Europe; more recently, ours has been about 65 percent less. But they save their heavy artillery for an attack on Europe's failure to innovate: "The 1980s ushered in a period of decline on the continent, with Europe's economic growth rates falling well below those of both Asia and the United States. And despite massive 'targeting' by governmental agencies, the worldwide share of high technology-based industries of three top European

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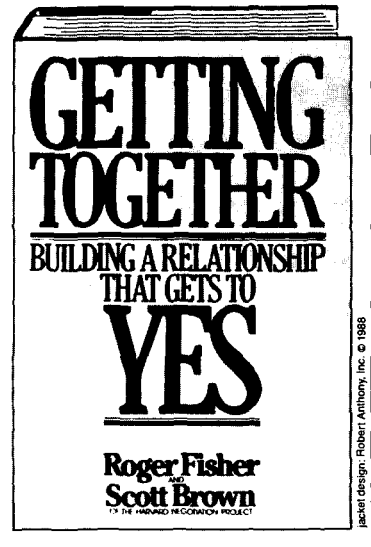

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economies—Great Britain, France, and West Germany—dropped nearly 13 percent between 1980 and 1984."

The problem, they conclude, is an approach that scorns entrepreneurship. "Nowhere," they say, "has the dampening effect on planning for entrepreneurial growth been more evident than in the high-technology field." Overall, "Europe's government-guided shift to 'high value-added production' has contributed to turning the continent even more into a technological backwater."

I agree with the thrust of their argument. As Europe moves to confront 1992, when all common market countries will drop their trade barriers with one another, I have been deeply discouraged to watch its merger frenzy, which is a tragically flawed attempt to achieve the "critical mass" needed to compete throughout the soon-to-be-opened, 320 million-person market. The era of clumsy giants is past. We are entering the "Era of the Gazelle," as a colleague puts it—from steel to computers, biotechnology, semiconductors, and superconductivity. Not only does Europe have few gazelles, it seems haughtily uninterested in birthing any.

Kotkin and Kishimoto's meticulous, firsthand analysis of today's Japan is peppered with words and phrases such as "tragic," "profound weakness," and "desperate vice." Could this really be invincible Japan?

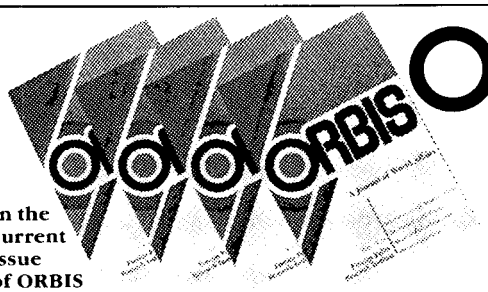
In brief, the authors argue that Japan is not fully embracing the next stage of required development. "As the nation enters the 1990s," we are informed, "Japanese industry finds itself caught in a desperate vice, too expensive to compete with the low-cost NICs [newly industrialized countries, like Taiwan, Korea, Hong Kong, et al.] in mass manufacturing while lacking the dynamic new growth companies. . .capable of producing the necessary new innovations and technological breakthroughs."

The authors and many of their Japanese informants say that Japan needs to find a new way: seedling firms. But so far, this has not been in the cards. They write: "The much admired 'adjustment' policies and corporate stability of Japan are in reality signs of a profound structural weakness. A society facing a major industrial transition *should* be rife with the messy capitalist carnage caused by large-scale takeovers, mergers, and spin-outs. But instead the structure of Japan's economy, characterized by giant conglomerates, has remained largely intact."

The old strategy has run afoul of the changing times. "The mercantilist success of Japan has been based largely on a 'fast-follower' strategy," Kotkin and Kishimoto contend. "Rather than competing on innovation and creativity, Japanese firms usually prefer to buy the latest technology from abroad, an approach that worked when Japan's currency and labor rates were relatively cheap in comparison with those of Europe or the United States. But now Japanese costs approach or even exceed those of its advanced competitors."

Where is Japan (and the other Asian nations, for that matter) looking for new role models? Kotkin and Kishimoto's answer is surprising: "America's open system."

—*Tom Peters*



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